

FEB 27 1946

# CREDIT

AND FINANCIAL MANAGEMENT



International News Photo

## RECONVERSION

**In This Issue:—Causes of Business Failures as a Warning for '46—How Tax Withdrawals Affect Partnerships — Credit's Place in Marketing — Interest on Overdue Accounts—Third in a Series of Discussions on Secured Sales**

# Education— an Investment in Yourself

## Why Should You Invest in Education?

For the simple reason that education is a necessity upon which so many of the important things of life hinge—your home, your daily bread, your success on the job, your social and professional achievement, and your outlook upon a confused and changing world. It is also an essential instrument through which commerce, industry, and the professions can be expanded to meet new challenges. You are an important personnel essential in commerce and industry and should, therefore, make a heavy investment in *yourself* through education.

## Will Your Investment in Education Pay?

Many studies show a favorable relation between individual incomes and education level. The U. S. Chamber of Commerce in a recent study of over 55,000 males between 35 and 44 years of age, reveals that among wage and salary workers, the higher incomes generally are received by persons of higher education. Of those who reached the \$5,000 income bracket, 50% pursued their education beyond high school, 39% attended or graduated from high school only, and 11% had 8 years or less of schooling. The percentage of those with some high school education increases up to the \$3,000

income and falls off slightly beyond that point. These results are dependent upon the individual's ability to put to use effectively the training received. Your investment in credit education should give you a satisfactory return if you apply your initiative, aggressiveness, and capacity. It will pay because it will make you a better man for a better job.

## How May You Benefit From Credit Education?

For you, credit education provides: (1) the means whereby you may prepare effectively for the tasks to which you may be assigned, and (2) the means whereby you may raise your own professional level and share with others the responsibility of "guarding the Nation's profits." It will broaden your vision of business, give you greater technical proficiency, and help you build a background for executive work. The executives of tomorrow will be those who, today, are reaching out and acquiring broad, well-balanced business knowledge.

## Where May You Obtain Credit Training?

The National Institute of Credit offers through its 71 chartered chapters and its correspondence study program a training course that fits you for more efficient administration of credit department duties. For information write:

# National Institute of Credit

One Park Avenue,  
New York 16, N. Y.



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City ..... State .....  
Check—Interested in ..... Correspondence Study ..... Resident Class Work in Chapter .....

# CREDIT

## *and Financial Management*

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Scene at Weber Showcase and Fixture Plant, Los  
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cabinets and soda fountains. In the background work-  
ers are completing a wartime order for air plane  
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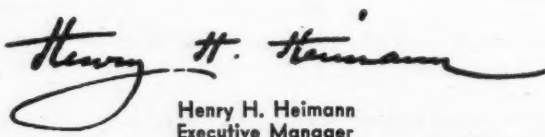
# OUR CREDIT TOOLS MUST BE STANDARD

**CF** The evaluation of credit in the postwar period will be a much more difficult task. During the war, with the government the principal creditor, in many instances credit was accepted with meager information, providing it was favorable. While such a policy was never justifiable, in the months ahead it would be highly dangerous.

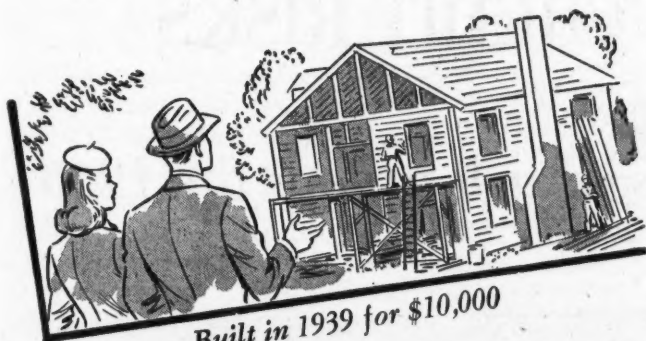
The first essential in evaluating credit in the postwar period is the determination of a man's character or the character of the officers who manage the company. There is no better way of evaluating this than through their past and present performance. This information is factually and realistically portrayed in a Credit Interchange report. Such a report gives a record of performance, not of promise; of fact not of presumption; of real business transactions, not of promissory hope but of deeds.

In addition, the analysis of balance sheets must be carefully made. Check particularly as to the source of the balance sheet. Is it certified by a certified public accountant of good professional standing? Does the balance sheet really reflect undisclosed liabilities or contingent obligations? Insist, wherever possible, that the balance sheet be certified by accountants duly registered and qualified in the state in which they are practicing? In some industries there has been an almost universal acceptance of the fact that the credit fraternity has a right to demand a certified balance sheet. In the postwar period this right would seem to be even more logical.

There is real professional work ahead for the credit executive. He must know not only what tools to use, but, what is more important, how to use them. The credit executive should know that his tools are standard just as the machinist knows that the micrometer he uses is standard. Finally, by cooperating with other credit executives he must see that every new method of evaluating credit is disseminated to his fellow credit executives. It is this exchange of information that will reduce bad debts and consequently contribute to an orderly expansion of commerce.

  
Henry H. Heimann  
Executive Manager

# The Story of a Home...



Built in 1939 for \$10,000



Sold in 1946 for \$15,000



**P**icture this home—built in 1939 for \$10,000, and *fully insured* against fire. The owner paid his premiums promptly, his insurance agent faithfully kept the policy in force. Yet *somebody failed*, for the owner suffered a 50% loss when this home was destroyed by fire recently!

Why?

Under soaring property values, many an owner has outgrown insurance coverage that hasn't kept pace with increasing replacement costs. When fire strikes, his insurance offers only partial protection.

The same loss pattern is intensified when a co-insurance clause is in effect and valuation is set too low—the actual loss increases as values increase.

That's unfortunate—bad for the insured *and* the insurance agent.

Alert Home Insurance producers, therefore, are awakening policyholders to the situation, urging re-appraisal of values. Backing them up, The Home Insurance Company is doing everything possible to show the need for added insurance to cover today's increased values.

☆ THE HOME ☆  
*Insurance Company*  
NEW YORK

FIRE • AUTOMOBILE • MARINE

# THE MARGINAL CREDIT RISKS

## *Causes of Business Failures as a Warning for 1946*

**C** When all of the basic elements of a good credit risk are present in generous proportions, the task of the credit man is not presumed to be a difficult one. This is regarded to be particularly true in times of general prosperity. However, the bankruptcy records indicate that a high percentage of business failures occur even in so-called periods of boom prosperity. We therefore, are faced with the difficult task of constantly identifying the borderline or marginal credit risk.

We are entering a period of unprecedented business activity, when the tremendous productive capacity of our industries will be directed to the peacetime fulfillment of an extensive backlog of consumer needs. There is reason to believe that these wants are backed by substantial savings, which will be used to purchase consumer goods, sending the nation's sales volume soaring to record heights. Every phase of business activity will be called upon to expand its facilities and services, not only to supply these needs, but to endeavor to establish the business organization on a firm foundation, in order to insure continuity and permanence of operation.

The pressure being brought to bear on wartime restrictions, established for the purpose of preventing a disastrous inflation, has reached the explosive stage. There are many danger signals, pointing to the possibility of the greatest inflationary boom in our economic history. The incidence of this boom may come sooner than anticipated and its progression into the deflationary cycle occur at a much faster pace than heretofore anticipated. If this acceleration materializes, we are told that we will, inevitably, face a de-

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by **ELLIOTT R. MARKELL**

*Credit Manager*

**BANKERS' COMMERCIAL CORP.**  
New York City

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pression far more devastating than any which we have previously experienced.

### **New Faces in Business**

New methods of production, improvements and short cuts in machine tool operation, new materials and new types of business ventures will attract idle investment capital. Consequently, it is to be anticipated that a wave of new business enterprises will enter both the old well marked trails and the uncharted seas of pioneer business adventure. All manner of schemes to attract the speculative investor will blossom forth in the mad rush to seize the "pot of gold." There will be many who will endeavor to establish a fortune in the least possible time, with a minimum of productive effort. Under these circumstances, the burden and responsibility placed on the credit fraternity will be tremendous. It will call for exceptional judgment and foresight, particularly in identifying and classifying what we may term the marginal risk.

With expanding business activity, many tyros are lured into investments in overcrowded fields. When the point has been reached where wartime savings have been absorbed and the crest of the wave of prosperity has passed, the deflationary arc of the business cycle will bring the inevitable toll of failures. They will represent, to a large extent, the fringe or marginal risks which will

have been liquidated by the exertion of competitive pressure in a shrinking market. Every well informed and experienced business man knows that there is a saturation point in the organization of new business ventures, in any given field of commercial or industrial activity. To enter such a field, without a careful survey of all the risks involved and without ample resources, both from the capital and capacity standpoint is foolhardy. These marginal risks will be the case studies which the alert credit man must be able to recognize in order to prevent substantial losses when the deflationary process becomes operative. The ability of the credit man to recognize these risks and avoid hazardous commitments will be the measure of his acuity and foresight.

### **The World War I Picture**

An examination of business mortality records in deflationary periods following the upswing of the business cycle will be of special interest. In 1922 just three years after the close of World War I, the number of commercial and industrial failures jumped to 367% of the 1919 total. The current liabilities represented by these failures soared to 551%. Similarly in 1932, three years after the 1929 boom, failures had jumped to 138% of the 1929 total with current liabilities 192% of the 1929 total. While percentage-wise there was not as great a disparity in this latter period (1929-1932) as there was in the previous three year interval (1919-1922), nevertheless, failures reached an all time high of 31,822 in 1932 with current liabilities of \$928,300,000.<sup>1</sup>

<sup>1</sup> *Commercial and Industrial Failures in the U.S.* The World Almanac, N. Y. World-Telegram, 1942, p. 517.

It is commonly believed that business failures are caused by "business depressions." This is, for the most part, incorrect. It is a matter of record that the number of failures in the two years preceding 1929 were almost as high as the number in 1929 and 1930, two years in which the depression was operative. Close analysis of these alternate periods of prosperity and depression has disclosed that there is no pronounced difference in the number of business failures. According to the report of the United States Department of Commerce, printed in 1932,

The greater number of enterprises which are launched and later fail have no economic justification, and lack the essentials of successful operation. In most cases it could hardly be expected that anything short of a miracle would enable them to avoid failure, and a temporary lull in commercial activities serves only to accelerate the movement toward an inevitable end.<sup>2</sup>

In other words, the significance of these figures lies in the realization that failures are with us always and a period of depression only serves to accelerate the progress of deterioration in the affairs of the borderline or marginal risks.

### Cause of Business Failures

The causes of business failure are many. In lieu of a comprehensive listing of the many causes involved, it will be helpful at this point in our discussion, to call attention to those which occur most frequently according to the same governmental report analyzing the causes of failure of 570 bankruptcies. These outstanding causes of failure are the seriously considered opinions of both the creditors and the owners of the bankrupt enterprises.<sup>3</sup> A careful study of this material will reveal valuable criteria which will be of assistance to the credit man in identifying the marginal risk. A detailed study of this comprehensive report is recommended, since the quotations which follow serve, only, to indicate the value of the material contained therein.

(Continued on page 6)

<sup>2</sup> Sadd, Victor, & Williams, Robt. *Causes of Commercial Bankruptcies*. U.S. Dept. of Commerce, Washington, 1932, p. 19.

<sup>3</sup> Ibid., p. 12.

## Uncle Sam's Payroll

*Civilian employment of the executive branch of the Federal Government, by departments and agencies, for the months of October and November 1945, showing the increases and decreases in number of paid employees, as reported by the Joint Committee on Reduction of Nonessential Federal Expenditures.*

Departments or Agencies	October 1945	November 1945	Increase	Decrease
<b>Executive Office of the President</b>				
Bureau of the Budget.....	743	741		2
<b>Executive Departments</b>				
Agriculture Department.....	89,019	87,664		1,355
Commerce Department.....	36,227	36,024		203
Interior Department.....	44,085	43,397		688
Justice Department.....	25,709	25,213		496
Labor Department.....	35,360	34,596		764
Navy Department.....	604,898	591,538		13,360
Post Office Department.....	443,942	444,974	1,032	
State Department.....	21,078	18,943		2,135
Treasury Department.....	94,556	94,762	206	
War Department <sup>1</sup> .....	909,771	844,048		65,723
<b>National War Agencies</b>				
Civilian Production Administration <sup>2</sup> .....	5,367	3,934		1,433
Committee on Fair Employment Practice.....	53	55	2	
Office of Alien Property Custodian.....	613	600		13
Office of Censorship <sup>3</sup> .....	134	0		134
Office of Defense Transportation.....	663	374		289
Office of Inter-American Affairs.....	615	602		13
Office of Price Administration.....	42,301	40,034		2,267
Office of Scientific Research and Development.....	1,084	934		150
Office of Strategic Services <sup>4</sup> .....	1,066	0		1,066
Office of War Information.....	23	6		17
Office of War Mobilization and Reconversion.....	581	608	27	
Petroleum Administration for War.....	529	281		248
Selective Service System.....	17,390	17,043		347
Small War Plants Corporation.....	1,588	1,684	96	
War Shipping Administration.....	5,191	5,045		146
<b>Independent Agencies</b>				
American Battle Monuments Commission.....	1	1		
Civil Aeronautics Board.....	380	407	27	
Civil Service Commission.....	6,006	5,220		786
Employees' Compensation Commission.....	526	546	20	
Export-Import Bank of Washington.....	70	70		
Federal Communications Commission.....	1,522	1,477		45
Federal Deposit Insurance Corporation.....	1,174	1,175	1	
Federal Power Commission.....	665	678	13	
Federal Security Agency.....	31,975	31,763		212
Federal Trade Commission.....	449	450	1	
Federal Works Agency.....	20,474	20,503	29	
General Accounting Office.....	13,786	13,943	157	
Government Printing Office.....	6,995	7,031	36	
Interstate Commerce Commission.....	2,021	2,025	4	
Maritime Commission.....	9,149	8,619		530
National Advisory Committee for Aeronautics.....	6,168	5,947		221
National Archives.....	336	343	7	
National Capital Housing Authority.....	235	246	11	
National Capital Park and Planning Com.....	17	17		
National Gallery of Art.....	271	275	4	
National Housing Agency.....	14,488	14,380		108
National Labor Relations Board.....	792	860	68	
National Mediation Board.....	97	100	3	
Panama Canal.....	32,029	31,580		449
Railroad Retirement Board.....	1,797	1,690		107
Reconstruction Finance Corporation.....	15,878	26,228	10,350	
Securities and Exchange Commission.....	1,149	1,164	15	
Smithsonian Institution.....	420	419		1
Tariff Commission.....	285	267		18
Tax Court of the United States.....	119	122	3	
Tennessee Valley Authority.....	12,026	11,857		169
Veterans' Administration.....	79,995	86,463	6,468	
<b>Total<sup>5</sup>.....</b>	<b>2,643,881</b>	<b>2,568,966</b>	<b>18,580</b>	<b>93,495</b>
<b>Net decrease.....</b>			<b>74,315</b>	
<b>War Department<sup>6</sup>.....</b>	<b>733,792</b>	<b>646,457</b>		<b>87,335</b>
<b>Grand total.....</b>	<b>3,377,673</b>	<b>3,215,423</b>	<b>18,580</b>	<b>180,830</b>

<sup>1</sup> Does not include employees stationed outside the continental United States.

<sup>2</sup> Includes employees transferred from the War Production Board, which terminated as of Nov. 1, 1945.

<sup>3</sup> Terminated as of Nov. 15, 1945.

<sup>4</sup> Terminated. Employees transferred are now included in State Department and War Department totals.

<sup>5</sup> Includes employees stationed outside the continental United States, except those of the War Department. Total for October, 113,063; and November, 106,924.

<sup>6</sup> Employees stationed outside the continental United States, reported quarterly as of Sept. 30, 1945.

NOTE.—Employment figures now reported to the committee include the dollar-per-annum and without-compensation employees of the consultant-expert type who are authorized to receive per diem in lieu of subsistence.

### Inefficient Management

. . . The efficiency of management should be the foremost criterion of credit worthiness. Its technique lies partly in the science of accountancy. Accounting records reveal the inefficient parts of a business and are a necessary guide in formulating policies for reducing the costs of doing business . . . The lack of efficient management is a responsible cause of failure in the vast majority of unsuccessful enterprises.

. . . Too many persons venture into business without a true evaluation of their own abilities and a knowledge of methods required to conduct a business profitably.

. . . A lack of ability in any of the major functions of business is an indication of probable failure.<sup>4</sup>

### Insufficient Capital

Very few business failures studied seem to have resulted primarily from lack of capital. Insufficient capital is merely an indication of the fact that the concerns attempted to do too much business on credit. . . . It is generally true that most concerns fail because of the wrong way in which the owners or managers use the capital they have, rather than because of any lack of capital. The average concern usually gets into difficulties because of granting and accepting too much credit.<sup>5</sup>

### Bad Debt Losses

. . . The failure of one individual or concern to pay just debts on the due date adversely affects, however remotely, all other members of the vast credit system . . . Upon the soundness of credit granting by the retailers, the wholesalers, the manufacturers or the bankers depends the soundness of the entire mercantile structure.

A true appraisal of ability and character is necessary in every credit transaction. The many errors made are reflected in the appalling credit losses and business failures. A bad-debt loss is usually nothing more or less than

the result of an error in judgment . . . The negligence of a creditor to base credit extension on facts systematically gathered from all available sources may result in his own failure and the failure of others.<sup>6</sup>

### Competition

Competition determines the fate of industries and the firms that survive within an industry.

Competition serves to eliminate the inefficient and unqualified from business, but unfortunately their places are filled by others equally inefficient and unqualified.<sup>7</sup>

### Adverse Domestic and Personal Factors

. . . Numerous bankrupts state that their inability to overcome bad personal habits was the primary cause of failure. Extravagance, intemperance, indolence, gambling, . . . frequently mentioned by the debtors as the origin of their difficulties . . . The health of a business man is an important determinant of his success.<sup>8</sup>

### Dishonesty and Fraud

Most credit authorities are agreed that dishonesty and fraud are the cause of a huge number of commercial failures. . . . fundamental causes . . . fraudulent bankruptcies . . . attributed to . . . sales volume at any cost . . . affording a fraudulent debtor . . . opportunity to secure merchandise easily and the neglect of creditors to insist on . . . investigation of bankrupt cases.<sup>9</sup>

### Decline in Value of Assets

The rapid and constant decline in values of merchandise, real estate, equipment, and other assets . . . has undoubtedly been a primary or contributing cause of many commercial failures.<sup>10</sup>

Having recognized some of the more important causes of business failure, let us now turn to the consideration of some of the facets which may be examined in analyzing the marginal credit risk. The following considerations may aid in clarifying the thinking, make more meaningful the credit analysis and serve to crystalize the trend of thought in arriving at an equitable decision.

### The Need of Business Experience

It is, of course, axiomatic that a good credit risk should be one who is experienced in his chosen field. There are, however, many degrees of experience to be considered in measuring the capacity of the individual or the collective capacity of the official personnel of a business enterprise. The talents of many fields must be combined to measure up to the exacting requirements of modern business. A fundamental and working knowledge of accounting, business organization, economics and law is requisite for success or a combination of these talents shared by the associated principles of a business organization. We might classify these gradations in business capacity as follows:

1. The person or persons without any previous business experience whatever who appear as the principals of a new business enterprise.
2. The person or persons without previous experience in the particular field chosen but who have proven successful in other fields of industrial or commercial activity as principals.
3. The person or persons who combine academic training with others who have had practical business experience.
4. The person or persons who individually contribute both practical business experience and academic training.

I would like, especially, to call attention to the credit applicant who has been through bankruptcy. While the mere recordation of any act of bankruptcy will perforce tend to bring the credit applicant into disfavor, it should by no means be allowed to prejudice the thinking if such financial stress can be proven to have been due to circumstances beyond the control of the bankrupt. Unless overt acts of fraud, misrepresentation or malfeasance are in evidence, careful investigation of the causes of such bankruptcies should be made. If a man has had an honest failure and proven his desire to meet his obligations to the maximum of his ability, due credit should be given

(Continued on page 12)

<sup>4</sup> Ibid., pp. 16-17.

<sup>5</sup> Ibid., p. 20.

<sup>6</sup> Ibid., p. 21.

<sup>7</sup> Ibid., p. 23.

<sup>8</sup> Ibid., p. 25.

<sup>9</sup> Ibid., p. 26.

<sup>10</sup> Ibid., p. 28.

# HOW TAXES AFFECT PARTNERSHIPS

## *Withdrawals Change Capital Status*

by L. F. HUFNAGEL, C.P.A.

Partner  
MAIN AND COMPANY  
Pittsburgh

ogous to problems of a credit man:

*First*, like Babe Herman, he must be able to distinguish between good and bad investments—in his case, credit risks.

*Second*, he must be right. He can't be "only one off."

*Third*, like the manager of a baseball team, he has only one guess.

Further comparison may be made between a baseball manager and a credit man. If the manager has a winning team, it is because the management has provided him with good players. If he has a losing team, he is a poor manager. He takes too few or too many chances and doesn't exercise good judgment. If the credit man's ratio of losses from bad accounts is high, he is too lenient in extending credit and doesn't make proper analysis of

factors affecting a customer's ability to pay. If his loss ratio is low, he is turning down a lot of profitable business. Like the baseball manager, he is seldom given credit for a job well done.

### **An Accountant's View**

The comments which I will make apply to sole proprietorships, as well as to partnerships, and, to some extent, to corporations which keep their records on the cash basis. My views are those of an accountant, not a credit man. The methods of accounting procedure and of auditing procedure are set by the American Institute of Accountants, and members of this organization are kept advised of decisions of the Institute through the issuance of bulletins. The pronouncements contained in these bulletins constitute what are known as generally accepted accounting principles and generally accepted auditing standards. In other words, they are the public accountant's Bible. Any deviation from the methods outlined in these bulletins must be brought out in the accountant's certificate. Application of the principles, however, must be tempered with judgment, since literal application of the principles pronounced by the American Institute of Accountants might result in ambiguous or *misleading statements* if other circumstances affecting certain transactions or conditions are ignored.

I do not know whether credit men have such a Bible. I do know that certain formulae have been devised to assist credit men in analyzing financial statements. The application of these formulae must also be tempered with judgment.

It seems to me that credit is

**C**A few days ago I attended a luncheon at which "Pie" Traynor, former manager of the Pittsburgh Pirates and one of baseball's immortals, was the guest speaker. He told a number of humorous baseball stories, one of which concerned "Babe" Herman, who was considered one of the "daffier" baseball players. Incidentally, "Pie" mentioned that, off the field, Herman was very intelligent and is now quite wealthy due to his thrift and wise investments. One day, during Babe's short stay with the Pirates, he brought his young son to Forbes Field—a nice looking, dark-eyed chap. One of the players remarked, "That's a fine-looking boy you have, Babe." "Yes," replied Babe, "and he's smart, too. Watch, I'll show you." He turned to the boy and asked, "How much is 6 times 2?" "Fourteen," said the boy. "Pretty good, eh?" said the Babe, "only one off."

When I heard this story from the lips of a former major league baseball manager, it suggested three points which are somewhat anal-



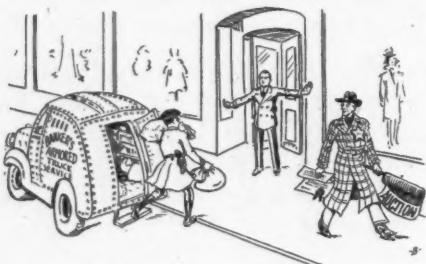
*The Credit Executive Must Always Be Right*

based, primarily, upon two distinct factors—the intent and the ability of a purchaser to meet his obligations. The intent to meet a financial obligation is a matter of morals and character. Ability to pay, in my opinion, is based upon—

1. Present financial position.
2. Earning power.

### Earning Power More Important

To my mind, earning power is the more important of these two



"When New Money Comes In"

factors. A firm might have a fine current financial position, but, unless it has earning power, it will eventually find itself in financial difficulties. On the other hand, it might have a poor financial statement and even a poor past earnings record and still be a good credit risk because of changes of type of business, in methods of production, admission of new and capable partners, changes in management, etc., which would increase its future earning power.

I have in mind a certain corporation which underwent a change in management. When the new officers took over, the corporation was practically bankrupt. The officers contacted the principle creditor to attempt to arrange for convenient terms to settle the old account and for extension of additional credit. Despite the fact that the new officers had excellent past records as successful operators, they were not only denied the request for additional credit, but were threatened with bankruptcy proceedings unless the old accounts were paid within a very limited time. To make a long story short, the new management negotiated bank loans in sufficient amount to pay the pressing obligations, arranged for credit with a competitor of the former supplier, and became extremely successful. Needless to say, the company which did not recognize the improvement

in the credit risk, represented by the character and ability of the new management, did not benefit from this success. This is one of the thoughts I had in mind when I mentioned that application of stereotyped formulae should be tempered with judgment.

### Must Check Withdrawals

Another condition which requires the exercise of judgment concerns an individual or firm with good earnings, but whose withdrawals exceed the profits (and I think the amounts of withdrawals, as well as the amount of profit or loss, should always be reported in statements submitted for credit purposes). The excessive withdrawals may have been made for the purchase of a home or other capital investment or they may indicate that the proprietor or partner, while a successful business operator, is not so successful with his personal affairs and is unable to live within his income.

Now, I shall discuss analysis of financial statements. I do not believe the credit man, ordinarily, should be concerned too much with the details of the profit and loss statement, except as to items which I shall mention later, but he should note whether the profit or loss resulted from business operations or from non-recurring transactions. As to the balance sheet, the credit man is concerned primarily with working capital, that is, the excess of current assets over current liabilities. He should not place too much emphasis on the value ascribed to property and equipment as security for credit extended for two reasons:

1. The value of property and equipment on the usual financial statement represents merely the undepreciated portion of the cost or other basis of these facilities and may be far removed from the actual or salvage value.

2. Looking to such assets for settlement of open accounts envisions liquidation of the business, which usually results in losses to creditors.

### When Can He Pay?

The investment in property and equipment, however, may provide a gauge for measuring future volume

of production and earning power.

In estimating the time which will probably elapse before a prospective customer can pay for current purchases, the liabilities should be classified as to maturity dates. For example, open accounts should be considered as payable out of the present cash balance or the first cash receipts; notes payable or other types of current liabilities may have later maturity dates. (Generally accepted accounting principles provide that liabilities which become payable within one year from the date of a balance sheet should be classified as current.) The liabilities should then be compared with the current assets, usually cash, accounts and notes receivable, and inventories, and an estimate made of the time which will elapse before inventories and receivables will be converted to cash. Ordinarily the inventories are converted to accounts receivable and then to cash. A comparison of cost of sales as disclosed by the profit and loss statement with the inventories will provide an indication of the time required to convert the inventories to receivables. For example, if the cost of sales was 6 times the average inventory, this would indicate that



Beware of Unrecorded Liabilities

the inventories would be sold within 2 months and thus become receivables. A similar comparison can be made of sales and receivables. The ratio of receivables to sales indicates the approximate rate of payment by customers. Thus, if the receivables are equal to 1/12 of the annual sales on credit, it would indicate that receivables, on the average, are settled within one month.

### Unrecorded Liabilities

There are other factors which must be considered in making an intelligent analysis of financial statements for credit purposes.

Among these are unrecorded liabilities. Many small business concerns keep their records partly on the cash basis and partly on the accrual basis—that is, sales and purchases are recorded when they are made



*The Flow of Receivable Into Assets*

and the appropriate asset or liability is set up. Expenses are not recorded until they are paid. Unrecorded liabilities for ordinary expenses of a going concern are usually relatively unimportant and will not produce an excessive drain on available cash, but unrecorded liabilities for other purposes may result in a substantial reduction in the cash position within a short time and disclosure of such liabilities might affect the decision of the credit man. These may include commitments for purchases of new equipment or for other business purposes and, in the case of sole proprietorships and partnerships, anticipated withdrawals for payment of income taxes or other extraordinary expenditures. The topic of this discussion deals specifically with withdrawals or anticipated withdrawals by partners for payment of income taxes, but other substantial withdrawals have the same effect on working capital; therefore it is necessary that the credit man have knowledge of the approximate amount of such anticipated expenditures in order to make an intelligent analysis of the balance sheet. At the present time, financial statements submitted by sole proprietorships and partnerships, even those certified to by independent public accountants, seldom disclose the extent of such liabilities. To my knowledge, the American Institute of Accountants has not made any pronouncement to cover this point, although, inferentially, it might be included in a requirement that a public accountant disclose any factor of which he has knowledge at the time of preparation of a financial statement which

would substantially change the financial position of the subject of his audit if effect were given to that factor on the balance sheet. This pronouncement was issued primarily for treatment of inventory losses, contract cancellations, etc., which occur shortly after the balance sheet date.

### **A Footnote Would Help**

On the other hand, a question included in a recent examination given by the American Institute of Accountants read as follows:

"Should the partners' federal income tax liabilities be shown on a partnership balance sheet? Give reasons for your opinion."

The model answer, which has not been reviewed by the Board of Examiners and is not official, read as follows:

"The partnership return is an information return showing each partner's distributive share of the partnership income. The partnership is not a separate taxable entity, and is not subject to income tax. Therefore, no federal income tax liability should be shown on the partnership balance sheet.

"It might be well, however, to footnote the financial statements to the effect that the personal income tax liabilities of the respective partners were not included therein."

Reports submitted to the New York Stock Exchange by its members, who include possibly the largest partnerships in the world, require no mention of the partners' tax liabilities.

From the foregoing, it is apparent that liabilities for partners' income taxes could be excluded from certified financial statements and the exclusion could be justified as not being a violation of the generally accepted method of presenting financial statements.

### **A Problem for Credit Man**

This presents a difficult problem for the credit man. In the case of smaller corporations which keep their records on a cash basis, the liability for income taxes can be estimated with reasonable accuracy by analysis of financial statements as they are presently submitted. It might also be argued that, under the

Pay-As-You-Go Tax Plan, the unpaid liabilities for income taxes of partners or sole proprietors would not be relatively substantial; however this is not always the case. Partners and sole proprietors of a business enterprise frequently have income from other sources, as well as tax deductions not connected with the business. It is impossible to tell, from the financial statements alone, how much tax the individual will be required to pay in the immediate future and whether or not he will withdraw funds from the business to pay the taxes. As an illustration of how a partner's tax liability might affect the working capital of a business, I recall one instance. A partner in an enterprise estimated his 1944 income tax at \$4000. He made three payments of \$1000 each for the first three quarters. In December, 1944 he completed a personal transaction which netted him a substantial profit and increased his tax to about \$33,000 for the year. This individual had sufficient foresight to set aside \$30,000 in cash out of his unexpected profit to provide for his taxes. If he had chosen, instead, to withdraw this amount from the partnership, it would have reduced the partnership working capital to a dangerous minimum.



*Check on Income Tax Liabilities*

### **Shy Away from Reserves**

There have been suggestions that partnerships and sole proprietorships should set up reserves on their records to provide for anticipated withdrawals and that such reserves should be shown on the balance sheet as current liabilities. I am not in complete agreement with such suggestions. Reserves are something of a mystery to both proprietors and bookkeepers of most small enterprises and represent to them merely another group of

*(Continued on page 48)*

# CREDIT'S PLACE IN MARKETING

## *Ask Credit Executive to Your Sales Conference*

**EN** At your marketing conferences, the representative of top management of course has his seat of honor and authority at the head of the table. Your sales manager is there, prepared to lead, if not dominate, the discussion. If your firm has a research department or division, its head is there to supplement the sales manager's explanations with charts and tables—or perhaps you have the representative of some outside market research agency sitting in for this purpose. Your advertising manager, or some advertising agency man is there. Possibly your production manager is there, for matters of product design or production schedules may have to be referred to him.

There may be quite an assemblage at a marketing conference. But in no marketing conference that I have attended in a consultant capacity, and in few that I have heard about, has the firm's credit manager participated.

Perhaps you fail to include your credit man in these conferences out of sheer thoughtlessness—you do not realize that he may have much to contribute to a conference on marketing. Perhaps you exclude him because you think of him as a dyspeptic no-sayer whose primary occupational qualification is a good working set of stomach ulcers.

If any of you hold the latter view of your colleagues of the credit department, let me say categorically that you do them a grave injustice. The last thing you can say of the credit man of today is that he is merely a no-sayer. On the contrary, he is a promotional expert and usually a very keen one.

### **A Business Missionary**

When a new order comes in, your credit man writes to the customer

by **WILLIAM J. SHULTZ**

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requesting a financial statement. His letter, however, is not merely a request for that statement and nothing more. It probably opens with: "My dear Mr. Jones: May I, as credit manager of the X company, take this opportunity to welcome you to the ranks of our satisfied customers." It proceeds with a real promotional job of selling the company and building up the customer's good will. Incidentally, it indicates that submission of a financial statement by a new customer is customary practice in the line of business, and notes that a statement form has been enclosed for Mr. Jones' convenience.

In his collection correspondence, your credit man seeks to obtain the payments due your company, but he does so in such a way that he maintains your customers' good will. If a customer is slow in his payments but a good long-run risk, many of the collection letters addressed to him are as much direct-mail sales letters as they are collection reminders.

To discounting and prompt-paying customers who need no collection reminders, your credit man occasionally sends "good will" letters whose only objective is the promotional one of retaining the loyalty of such customers to the firm. Could any effort by your sales manager or advertising manager accomplish more in maintaining customer loyalty than the following letter sent out to the firm's best customers:

My dear Mr. ....

I seldom, if ever, have occasion to

communicate with you in the regular course of business for the reason that your account does not necessitate correspondence from the Credit Department. So I am stepping from behind my desk at this time to speak to you personally for a moment and tell you just how much you have helped me in my particular field of activity for the (X) Company during the past year, as in other years, by the promptness with which you have followed your maturities and the consistency with which you have earned you discounts through both good times and bad.

Your splendid performance has been an inspiration for finer and higher achievement, and has quickened my ever-confident faith in the rightness of human purpose.

I trust we have merited your continued consideration as you have merited our high regard and enduring confidence, and that we may rely on your wholehearted support in the future as in the past, for bigger and better things to come.

With my personal regards, and hoping that 1946 may be the banner year of your entire history,

Sincerely and gratefully yours,

### **Help on Marketing Policies**

Your credit man is as promotionally minded as any of the other executives who attend your marketing conferences. He may be able to make valuable contributions to those conferences. My files have yielded a number of illustrations where credit managers who either were called in upon marketing conferences or had subsequent opportunity to comment upon the decisions of such conferences were able to give crucial information or give crucial suggestions on proposed marketing policy.

A manufacturer of style hats had been selling through selective outlets in a regional area. For various reasons they were operating on a slim profit margin. It was imperative that they should step up their sales. The issue arose whether they should seek expansion by dropping their policy of selling only through

selective outlets, one in each city and town, or whether they should maintain their selective outlet policy but expand their sales area. The arguments for either of these policies seemed fairly balanced until the credit manager, who was at the conference, made the point that in choosing selective outlets, they had been able to develop a customer list of only the highest-grade risks, with a result that bad debt losses and collection costs were negligible. If this policy were discontinued, they would have to sell through haberdashery and men's wear shops of a distinctly lower credit type; bad debt losses and collection costs would unquestionably be higher. He was unable, on the spur of the moment, to give the conference any exact figures on the relative risk and cost elements, but as a result of his warning the decision was postponed until some research on the matter could be done. The results of this research showed such a differential in relative credit risks of the different classes of outlets that the decision was to maintain the selective outlet policy and seek the added sales volume through territorial expansion of the sales area.

#### **Credit Analysis of a New Field**

I have record of another case, that of a lumber products company, in which the credit man's advice led to abandonment of a selective outlet marketing policy. The top management of this company had the fixed idea that certain mass outlets that might be developed by the company would involve high bad debt loss. The sales department had not been able to convince the top management to the contrary. The credit manager, who had not been present at the conference on this subject, learned of the situation. On his own initiative he prepared a report which showed that, while proportionately higher bad debt losses and collection costs would result from selling through the mass outlets, a clear and substantial net profit would be gained on the added volume of sales. Top management was persuaded by these figures, and the marketing policy of the firm was changed accordingly.

In another case from my files, the credit man's knowledge of relative

### *Would Help the "Confused", "Frightened", "Capricious"*

The American Bar Association early in February presented a proposal to the Senate-House Tax Committee that an Advisory Settlement Board be established within the Treasury to pass on Section 722 tax revision settlements. It had been pointed out that the personnel of the Internal Revenue Bureau appeared "confused", "frightened", and "capricious" in their attitude on Section 722 Tax Refund Matters. The Bar Association pointed out that by setting up an Advisory Settlement Board the "personnel of the bureau" will thus be relieved of the major responsibility of decisions under Section 722 Tax Refunds.

risks of chain stores and independent retailers was a crucial factor in determining which of these two classes of outlets should be employed.

#### **When Credit Man Saved the Day**

A very interesting case that came to my attention involved the issue of multiple pricing. A collar company had a well-established brand line that sold retail at three for a dollar. They wondered about the possibility of reaching out toward a larger mass market with a collar that would retail at five for a dollar, which price would give them a slim unit profit but possibly a substantial total profit. They didn't want to sacrifice the trade name. Someone had the inspiration of putting through an extra run of their collars, differing in no way from their regular output, except that the word "seconds" would be stamped on the inside, thus implying that there was some slight defect. This was a sound multiple pricing idea, which has often been successfully used with other products. The credit manager heard of the proposal and pointed out a factor that the other marketing people had overlooked. The haberdashers through whom much of the company's output was sold were, as a class, relatively poor credit risks. The unit profit margin on the wholesale price for three-for-a-dollar retail sale, however, amply covered the inevitable bad debt losses and collection costs. Unit profit on the wholesale price for five-for-a-dollar resale would be much lower and would not cover, or

would barely cover, the added losses that would result from the increased sales.

Besides his expert knowledge on relative credit risks, your credit man is somewhat of an authority on business cycle fluctuations. He must be, to anticipate recessions that may convert borderline acceptable risks to probable insolvents, and to anticipate rising markets that warrant credit terms to customers who at the moment may be just below the margin of acceptability. Your sales manager, of course, is also a student of business cycles. But it will do no harm to have two experts on this subject at your marketing conference. Your sales manager is a confirmed optimist on business forecasts as upon all other matters—if he isn't, you have the wrong sort of person for a sales manager. Your credit manager is not a pessimist, but he is less likely than your sales manager to ignore unfavorable portents. If your sales and credit managers are in disagreement as to what the coming months are likely to bring in the way of business conditions, let them argue out their opposing views. The rest of you at the conference will probably derive a better balanced picture of anticipated market conditions than if you listen only to the sales manager's views.

#### **Of Aid to Credit Manager**

In several ways, then, your credit manager may contribute substantially to your marketing conference. Another reason for having him

there is that he may learn things at the conference that will enable him to apply a sounder credit policy and otherwise improve the work of his department.

I know of one case where the manufacturer of a nationally advertised brand of men's suits decided to have one outlet in every college town, no matter how poor such outlet might be as a credit risk, in order that the students of the college would have the fullest opportunity to purchase this brand of suits during their impressionable college years. This was sound promotional policy, even if it did involve some bad debt losses that otherwise might have been avoided. The credit manager of the firm, who was called in on the conference, agreed to check through these college town accounts without regard to their credit standing. Suppose, however, that he had simply been notified, without explanation of the underlying promotional considerations involved, that he was to approve orders to these accounts even when he was convinced that they were unsatisfactory credit risks. Would he not have felt that such an order indicated lack of confidence in his credit judgment? Would not the seeds of mistrust have been sown in his mind—either mistrust of his own credit policy, or of his management's appreciation of his credit work? As it was, the discussion at the conference indicated the promotional considerations that lay behind the decision, and the credit manager willingly cooperated in this promotional effort.

#### **Full Understanding Is Best**

In another case that I know of, a shirt company had a dead stock of some brash yellow shirts that had been on their shelves for a couple of years. At the annual marketing conference it was decided to move these items at cut prices to any outlets that would take them. Salesmen on the company's southern routes would be instructed to offer them to negro outlets ordinarily not approached. The credit manager was not informed of these decisions. When orders for these yellow shirts started coming in from negro outlets which investigation indicated were definitely inferior credit risks, the credit manager as a matter of course dis-

approved them. Eventually the misunderstanding was cleared up, but only after heated dispute between the sales and credit managers, and at the cost of considerable ill-feeling within the organization.

Most conscientious credit men endeavor to make an annual field trip and visit as many as possible of their customers. This is not a collecting trip, nor are the visits confined to borderline accounts on which the credit man wants to make personal judgments. To a considerable extent this field trip is a promotional effort. The credit man visits good accounts as well as bad ones. He talks man to man with them, gets a "feel" of their business, builds up their good will for his firm. If he has attended his firm's marketing conferences, he is better primed on the products that the customers handle, on any peculiar

problems that they face, on forecasts of business conditions that may be of interest to them. He is a better good will ambassador for his firm because of this background.

In conclusion, may I point to an editorial that appeared in the May, 1945, issue of the *Department Store Economist*, a retail store magazine. One paragraph from this editorial read as follows:

"Who knows your best customer and your customer best? The credit manager. He is the best judge of public reaction to your credit policy, its acceptance or rejection. He is the first to cover customer complaints and knows the reasons that cause complaints and the conclusion. Get him into your department store policy conferences."

For mercantile and retail houses the recommendation is the same: **GET YOUR CREDIT MAN INTO YOUR MARKETING CONFERENCE.**

## **Factors in Marginal Risks**

*(Continued from page 6)*

to the character element of the risk. To live through the proceedings of a bankruptcy action will afford a liberal business education. Many successful business men who have previously failed have learned valuable lessons through such an experience.

#### **How About Antecedents?**

It is always important to investigate the previous business associations and activity of the credit applicant for the full term of his business experience, if possible, in order that previous records of failure, litigation, unpaid debts or misdemeanor may be brought to light. This is particularly true of the individual who has transferred his business activity from one locality to another over a period of years. Such changes may have been for the purpose of covering up a bad record. Sometimes the past "catches up" with the poor credit risk and comes as a painful surprise to the unwary credit man.

#### **The Importance of References**

It is natural for the individual in promoting his welfare to use every means at his disposal in

creating the most favorable impression. By the same token, the credit applicant will always present his best references. While there isn't any quarrel with this as a fundamental procedure, it is often enlightening to contact others in the same line of business who may have had previous unfavorable experience. These additional sources of information will often place an entirely different aspect on the risk.

An examination of a schedule of accounts payable to be found in the comprehensive reports prepared by reputable certified or public accountants will supply supplementary references, both bank and trade, which will be of further assistance. The investigation of past due accounts payable as credit references will often prove of immeasurable benefit in determining the business policies and the effectiveness of the operation.

In cases where new contacts have been made among suppliers of equipment, raw materials or merchandise, it is worth additional study in instances where the business has been operating for some time, to determine why these changes have been made. They may reasonably have been made for the

purpose of obtaining better quality merchandise, a better price or more favorable terms. On the other hand these changes may have been because difficulty has been experienced in their relations with previous creditors.

### Adequacy of Bookkeeping Records

Basic, in every successfully operated business, is the establishment of adequate bookkeeping records, which are accurately kept and reflect—at all times—the current financial condition of the business enterprise. Only by the maintenance of such records and their periodic supervision and examination by reputable outside accountants can both the recipient and the grantor of credit be assured of receiving full value. A sufficient number of books of original entry, as recommended by the accountants, will afford an intimate knowledge of the business operation in all of its ramifications. Such records will permit economies to be effected which will not only yield the maximum profit but often make the difference between failure and success.

### The Question of Stability

It is well to be wary of the fellow who has frequently changed his suppliers, his banking affiliations and the type of business in which he employs his talents. Change is not necessarily undesirable for it may result in continued improvement, however, frequent changes of this sort may be indicative of the business "jitter-bug" who is unwilling or incapable of conforming to proper business practices and refuses to abide by the covenants of his agreement.

### Speculative Business

To what extent is the business of a speculative nature? Is the product new and without an established market? Is it a staple article of merchandise or in the specialty or luxury class, dependent upon the whims of a fickle public? Are high pressure selling methods to be used in marketing the product?

Are large sums of money to be invested in experimentation and developmental work before the product can be marketed? These are

some of the questions to be answered in establishing the speculative nature of a business enterprise.

### Types of Organization

Too many times dependence is placed on one individual whose incapacity due to poor health or whose untimely death may place the business under financial stress or cause it to be liquidated entirely. There is also less flexibility and adaptability, as a rule, in the individual enterprise. There is greater security in a collective group of capable executives, who offer greater adaptability because of diversified talents and abilities, each one of whom is competent to assume responsibility in an emergency. In the event of a failure, greater financial responsibility can be anticipated since the obligations and risks are shared. Strongest of all, of course, is the corporate structure organized for perpetuity, generally offering greater financial responsibility, flexibility and a diversity of talents. In the case of proprietorships and partnerships particular attention should be directed to undisclosed principals, silent or limited partners who may represent the financially responsible ownership to whom the business operator looks for support and direction. The extent of their financial interest, their character and credit responsibility are therefore of importance.

### Sources of Capital

Capital for investment purposes may be accumulated out of savings, by inheritance, or it may be borrowed. Full detailed information should be gathered whenever there is an indication of borrowed capital; from whom borrowed, extent of loans, whether secured or unsecured, whether represented by documents in evidence of the debt and the manner in which it is to be repaid.

Where capital has been accumulated by reason of an inheritance, it is necessary to determine whether these funds can be placed at the risk of the business. Credit extension on the basis of resources represented by trust funds or a legacy administered by an estate may be very misleading. It may be

found that only the income from such inherited investments is available for use in the business. Trust funds are generally made irrevocable and cannot be levied against by creditors.

### Analysis of Financial Statement Data

No further explanation is necessary, for financial study analysis is basic in all credit procedure and ample material is available for the credit man who wishes to improve this phase of his work.

### Competition a Factor

Even when one has satisfied himself that all the basic elements of an acceptable business risk are present, there still remains the necessity of carefully weighing the competitive factors which will shape the future course of the new enterprise. Not only must the problem be approached from the standpoint of its impingement on and correlation to the community life, but also its position in respect to the particular trade in which it functions and the limitations of its market. Each line of business activity imposes its peculiar problems; but fundamentally, there must be, competently produced, a saleable product which can be marketed in adequate volume at a satisfactory profit to the producer. Such a statement is, of course, redundant, but it is of basic importance in determining the longevity of the new business venture to appreciate all the individual elements which contribute their specific part in producing a successfully operated business. It will always be a debatable question how much of any company's success is attributable to good judgment and how much to good fortune. However, it suffices to say, the extent to which fortuitous circumstances are minimized will be the measure of sound business and sound credit judgment.

In the years ahead a credit man who wishes to capitalize on his ability gained through years of practical experience must also realize the necessity of keeping himself informed of new developments in all the

(Continued on page 48)

# INTEREST ON OVERDUE ACCOUNTS

## *A Plea for Imposing This Collection Penalty*

**CE** Does interest interest you? Of course it does. Particularly so when you receive a slip from your bank reading "Notice of Interest Due and Payable on.... 1946. But when you are paying that interest, perhaps you are paying interest on your own money, or your own capital, which is tied up in long overdue accounts which should have been in your liquid capital account a long time ago.

And so the question might well come into the mind of the Credit Man or Woman, "Can we collect interest on these overdue accounts, and if so how should we go about it?"

That is a fair question and it would seem as if an examination of Court decisions would be called for in order to get the correct answer.

Interest has been defined as the compensation allowed by law, or fixed by the parties for the use or forbearance of money, or as damages for its detention, which would indicate that strictly speaking it was confined to those cases where money only was loaned or retained.

But the money due a merchandise or service creditor while not a loan—or retention as money itself—is a matter of no small importance to him whenever he has to pay interest without a possibility of collecting it.

In early English law "interest" appears to be one of those things which were reluctantly granted in commercial transactions as a matter of right, and few branches of their jurisprudence of a few centuries ago seem more involved in obscurity and confusion than on this particular question. From the time of Henry VIII to the early nineteenth century the matter was handled very "gingerly" by English Courts, until it became settled doctrine by the

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decision in *Liotard vs. Graves*, where the Court said that "for goods sold and delivered, unless there be evidence of an agreement, none is recoverable until a liquidation of the account takes place. If an account be transmitted by a creditor and acquiesced in, or assented to by the debtor, it becomes thereby liquidated, and interest is allowable. On money advanced interest is legally demandable."

### **What the Courts Rule**

In that case it will be noted that there must be some ascertainable time from which the interest can be allowed, and the distinction which was made between commercial transactions and "money advanced."

In American commercial transactions the question of interest on overdue accounts seems to have been raised early in the 1800's because we find a case decided in the Connecticut Courts in 1814 which went into the law rather thoroughly and said that "There were a number of instances where it (interest) was allowed, one of them being where goods are sold and delivered, to be paid on a day certain, and are charged on book, interest will be allowed after the term of credit has expired." It went on to say that this would not be the case where a "running" account was involved, such as might be the case of a farmer and a country store where debits and credits were constant,

and no time of payment was stipulated.

This rule was followed by a Vermont Court in 1836 where it was said that "interest is allowed on a merchant's account when he sells on credit, after the time of credit has expired" but that no interest would be allowed on mutual accounts, where there is no stipulated term of credit, and where the balance may vary from time to time. So, while it seemed to be settled doctrine that interest might be charged, and that the creditor could claim it, this was not, in itself, sufficient to ensure its collection as was indicated in an early Pennsylvania case, where the Court said that, "if it was the practice of the Philadelphia and Pittsburgh merchants to charge, in the usual and accepted course of business, interest on accounts which were six months old, this fact could go to the jury in fixing the amount of their verdict." In the early days of the Erie Canal (1831) a "forwarder" had shipped flour from Rochester to New York City by the horse drawn canal boats of that era, and a question arose in the New York Court as to whether interest should be allowed on his account. The Court said "interest is always properly chargeable when there is an express or implied agreement to pay it. It was the uniform custom of those engaged in the same business to charge interest, it was the custom of the plaintiff to charge it, it had charged it in former accounts against the same party and it had been paid without objection."

### **Must Be Part of Contract**

Thirty years later (1861) an Illinois Court said that a custom on the part of the creditor to charge

interest on an account past due will not authorize its recovery unless the debtor was informed of the custom.

How then is the debtor to be informed of the practice of having interest charged to him whenever the credit term is exceeded. The Courts intimate that that it must be a general custom of the particular business, known to those engaged in that business, and particularly, that it must have come to the attention of the debtor.

It would probably have to be proven by sufficiently convincing evidence that this really was the fact, as one Court has stated that the evidence of one person alone would not be enough—under the particular circumstances of that case. The notice can probably be given by having the credit terms set forth specifically on the statements or invoices, as was done in a case where cigarettes were shipped from Rochester to Chicago, and at the time of shipment, the invoices carried the words—Bills Bear Interest After Maturity and are subject to Sight Draft. Terms 60 days. 2% cash discount within 10 days.

A Massachusetts case (1898) seems to be especially instructive and valuable on the payability of interest on overdue receivables, where it says "in the absence of any agreement the price of the goods would be payable on delivery. The parties could make any agreement about that which they chose to make. If the creditor notified the debtor that it was willing to give a credit of thirty days on each bill and that the price would be payable at the expiration of that time, it was a proposition in the debtor's favor, and if he made no objection his assent would be implied and he would be bound by the contract. The fact that in subsequent statements interest was not charged was evidence that the creditor was then willing to waive the right to interest, but in the absence of a settlement on the statement it would not be deprived of its right to recover interest according to the terms of the original contract."

#### Stated on Invoices

It would seem from this decision that the creditor should, if he in-

tends to collect interest, follow that course consistently in his bills and invoices in order to save any questions as to a waiver of interest.

Interest in the guise of "damages" for the breach of contract of payment is not an infrequent item in a judgment and execution, but as long as the Courts are willing to treat it as "interest" on the original account, credit grantors might as well train their debtors to accept "interest" charges as a regular and unquestioned part of business practice and procedure.

In the competition for business the introduction of interest charges on overdue receivables may be fought as a retardation of sales volume, and claims made that the prices charged for goods and services always include enough of an "overload" to take care of overdue and bad debts. But—should cus-

tomers A who pay his debts promptly have the costs of B's debts included in his bills, even though the item is hidden?

This might well be the time, while we are Reconvertng, to have the whole issue of charging interest on overdue accounts thoroughly discussed throughout the credit field and have some standardized and recognized practices brought into being. The law appears to be favorable enough—but only the Credit Men and Women of American business can make the collection of interest on overdue receivables feasible and uniform.

**Editor's Note:** *In some industries involving large accounts, interest charges on past due items are an established practice. In certain branches of the wool industry for example the terms printed on invoices read: 2% 10 days, net 60 days. Anticipation at 6% per annum and interest at 6% per annum on past dues invoices.*

### Arthur Duggan Is Now In Charge at Boston As Executive Manager

The Forty-Ninth Annual Meeting of the Boston Credit Men's Association was held at Schrafft's Third Floor Dining Room, on Tuesday, January 22.

By way of introduction, Arthur Duggan, in addition to being Clerk, is now Boston's new Executive Manager. It took months to find Mr. Duggan, who has all the qualifications to succeed Joe Paul. Boston warmly welcomes Mr. Duggan.

Joe Paul, so well known to the National Association Executives and Members, is retiring from office after having so capably filled the position of Executive Manager for a period of eighteen years. Miss Mary Lane, who had been with the organization for twenty-two years, and also very well known to many of the National Association of Credit Men, is now employed by the Boston Rotary Club.

The Boston Association's Annual Christmas Party, held at the Hotel Statler on December 18, was therefore held in honor of Joe Paul and Mary Lane. It was a gala affair and the best ever for Boston was honored by the distinguished presence of Henry Heimann, National Executive Manager. Mr. Heimann presented for the Boston membership a beautiful scroll to Joe Paul. The scroll recited the services that "Joe" had rendered to Boston, and in one of the envelopes the Boston membership had placed a substantial war bond. Flowers were presented to Mrs. Paul. Mr. Heimann also presented, on behalf of the Boston membership, a beautiful bouquet to Mary Lane together with an envelope

containing several war bonds. Boston's membership extended their best wishes to "Joe" and "Mary" in their new undertakings. Both appreciated what the membership had done.

It was really a grand party!

### Detroit ACM Seeks 1000 Membership by Close of Fiscal Year

Detroit: At the January 24th meeting of the Detroit Association of Credit Men, Lt. Col. Charles W. Hughes, Canon St. Paul's Cathedral, was a principal speaker. P. E. Nichol, Credit Manager of the Udyllite Corporation, also gave an enthusiastic presentation of the possibility that the Detroit Association may reach a score of 1,000 members by the time this organization celebrates its Golden Anniversary next September.

### Swift Executive Shows How to Develop Memory

Kansas City: At the January 17th meeting of the Kansas City Association of Credit Men, E. W. Phelps, Manager for Swift & Co. in the Kansas City area entertained with the demonstration of how to train one's memory. Mr. Phelps based his remarks on the theory that memory is merely a matter of cultivating one's neurons. These, he explained, are nerve cells which may be expertly trained by continuous exercise and concentration. He demonstrated how this training of his neurons helped him in quite remarkable memory tests.

# CAN AMERICA AVOID DEFLATION?

## *Can Industry Correct Present Maladjustments?*

**C** You men specializing in credits are allergic to the question, "what is in store for us."

Both from the short term and the long term trend, I am certain that you realize and recognize the important part you play in what may transpire and understand that your decisions may encourage an orderly expansion and development or may stimulate a run-away inflation with an eventual collapse.

The cards, I am afraid, are stacked. No matter what we do about it now we are heading for a fall (maybe I should say rushing) and the penalties with compound interest will be exacted for the accumulated violation of economic laws and sound business practices since 1932.

From your position in industry and in your own firm, you should be particularly sensitive to what is occurring, to see that your own financial house is in order and realize that foresight is the important point to develop, since we all know the answers when it's too late.

In an expanding economy the forces which are at work soon reveal themselves and it is possible to follow them as they expand, grow, get out of control, and finally end with a collapse and recession.

### **Two Kinds of Maladjustments**

There are two kinds of maladjustment which develop.

(1) Industrial maladjustments involving cost of production, inventories, and profits. The consumer cannot continue to absorb the goods at the rising prices or the producer cannot continue to operate at a loss.

(2) Financial, maladjustments involving credit, capitalization, and a security market, maladjustments arising from the extension of credits, supply of funds, and the volume of business, from conflicts between

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short term money rates, speculative money rate, and the return on invested capital.

You will not need radar or television to discover the forces which are at work and the direction in which they are moving and the velocity which they are acquiring. All you have to do is open your eyes and view the changing panorama as it unfolds. There can be but one conclusion.

Why am I so pessimistic, and I might add, so positive?

For at least two reasons: (1) the weight of historical precedent, (2) the Washington scene.

All major wars have always resulted in a commodity price inflation. You recall the expression "not worth a continental". The length of the war, its size, and extent, and financial involvement contributes to the problem and increases the danger. We have no yardstick, no basis of comparison. The present war, in its size, extent, and costs, dwarfs any previous war. You can rest assured that there has been nothing done since 1932 which will prevent eventual deflation and collapse but there has been a lot done to encourage it.

During the Civil War, between 1861 and 1865, prices increased one hundred-twenty percent and then after 1866 the commodity price level declined steadily for twenty-nine years. During forty-eight years after 1866 the index average was fifty-one percent below the peak which had been reached in 1865.

During the period, 1914 to 1920, wholesale commodity prices increased about one hundred-fifty percent, fifty percent of which occurred after the armistice. Living costs almost doubled during the same period, forty percent of the increase occurring after the war.

### **Deflation of 1921-22**

During 1921 and 1922 there were tinued through 1921, 1922. In one year, May 1920 to 1921, farm prices dropped fifty-four percent. Non-agricultural prices dropped twenty-five percent in five months. Business concerns wrote down their inventories to the extent of eleven billions of dollars.

During 1921 and 1922 there were 43,328 commercial and industrial bankruptcies involving an aggregate loss of one and a quarter billions of dollars. Wages fell about five billion dollars. Five million workers lost their jobs and thousands of farmers lost their land and savings. The downward movement in prices continued for thirteen years after 1920, and the average was forty-eight percent below the peak in 1920 but thirty-three percent above the average level of the decade prior to 1921.

The period from 1914 to 1932 has a significant interest for us right now because of the fact that it occurred during our own lifetime and because many of us can recall vividly many of the things which occurred. I believe it would help a lot to understand present developments and trends if you would review that period. It might help to prepare us for what lies ahead. I have always felt that if deflation had been permitted to run its course in 1921 and 1922 and all of the dry rot had been cleaned out during this period we might have

escaped the debacle in 1929, at least the effects would have been greatly minimized.

It is true that during the present war our commodity prices have risen less than half of what they did during the last war period. Farmers are getting almost twice as much for their products than before the war and the average weekly earnings in all manufacturing industries are seventy-eight percent higher than in 1941. The cost of living in large cities has risen less than half of what it did during the 1914 to 1918 period.

### All Costs Must Be Controlled

It is true, we have had price controls, but price controls do not prevent inflation. They merely slow the process and postpone it for a while. Furthermore, price controls cannot be maintained unless all costs are controlled, and in spite of the popular ideas to the contrary, wages are a part of costs. Furthermore, price controls may have a deterring effect on production or expansion of business. Germany's controls during war number one were more severe than any we have ever had, yet that did not stop or prevent the greatest price inflation and collapse known in history.

It is the Washington scene which concerns me more than the historical precedent which I have just outlined.

1. The sudden termination of the war caught Washington without adequate plans for demobilizing the combat forces, the cancellation of war contracts, the disposal of surplus war materials and plants, the reconversion of industry to its peacetime activities and the elimination of restrictions and control. To this is added the "now or never" decision of labor to force the millennium through demanding a 30 percent increase in pay, aided by the pseudo-economist politicians in Washington who are more concerned about the effects of their statements on votes than on costs and inflation.

2. The conflict in policies driving in two directions at the same time, one encouraging inflation through suggesting and encouraging increases in wages, the other preventing deflation or attempting

to control it through efforts to control prices.

3. The conflict in ideologies, the one attempting to return to a system of private enterprise, the other trying to graft onto the system, which has made us great, some form of totalitarian control with the idea of taking over whenever the opportunity arises. The full employment bill is a point in that direction.

4. The president's program which certainly is inflationary. He advocates: (a) increasing the base rate of pay from 40 to 65c. or possibly to 75c. (b) increasing unemployment pay to \$25 a week for a twenty-six week period, (c) advocating the so-called full employment bill.

5. Secretary Wallace advocates higher wages for labor to offset the loss in take-home pay caused by reduced hours and the elimination of over-time pay. In doing that, was he thinking of small businessmen and their problems, for whom he has been shedding so many tears? Or the returning veterans who are being encouraged to go into business? Or the ten billion dollars or more of foreign trade which he said was essential if we were to maintain the proper national income.

6. The confused and deluded economists who are suggesting ways and means of increasing wages without increasing prices. From an accountant's point of view I object to the statements of many economists and statisticians because of the fact that they are single entry minded. They do not consider the cause and effect relationship of their statements. If they did, I don't think they would make some of

them. Any accountant, being double entry conscious, I hope, is trained to see and understand the effects of these recommendations.

Wages can be increased in one of three ways. (a) Through increase in productivity. (b) Through an increase in price. (c) Through a decrease in profits.

The first method is the only method which will work. The second method may develop a price resistance and consumers may refuse to buy the article. The third method may only continue for a limited time. Both two and three may result in a temporary or permanent shut-down of the plant.

Mr. Truman is suggesting a new idea. I will discuss that later.

7. Mr. Bowles' O. P. A.

Controls, economic strait-jackets, are necessary in times of war so that we can marshal our forces to speed victory, to avoid suffering, and to avoid a runaway inflation. All factors must be controlled including prices, costs, including wages. These will work only for a while and sooner or later lose their effectiveness. It would seem to me that we have reached that point. When Mr. Bowles attempts to maintain prices and allows wages to be uncontrolled or suggests that wages can be raised with a "NEG-LIGIBLE" increase in prices.

8. The labor pressure group, led off by the CIO auto worker's union, seemingly are emulating Mr. John Lewis in his successful victory over the coal operators.

(I noticed my coal bill increased about \$3 a ton and the quality of the product decreased. Did I also share in the victory?)

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### Record Production in 1946 Still Possible, Carl D. Smith Predicts

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Philadelphia: Carl D. Smith, Director of Education for the National Association of Credit Men, was the speaker at the January 23rd luncheon meeting of the Credit Men's Association of Eastern Pennsylvania. Mr. Smith based his talk on an analysis of the business now in prospect before American industry and indicated that the volume of business yet this year may well set an all time peace year record. He said that although the first nine months of 1945 were heavily padded with all-out war production, that if the management-labor problems are shortly solved, the total of production of 1946 may be only 100% less than that of 1945.

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They demand a flat increase of 30 percent on the theory that the take-home pay must be maintained even though time worked is cut. They contend that the companies can continue to pay the increase because of the excessive war earnings. (Renegotiations and excess profit tax notwithstanding.) They ignore the fact that if these profits do exist that they resulted from the efficient use of the property through the maintenance of high quality production for one customer and that surely this cannot be maintained during a reconversion period, when at best, companies operate at a loss. Any surplus accumulated during the war period will be very useful in meeting extraordinary expenses during conversion or losses arising for the same reason. Strikes, threats of strikes, slow downs, all add to the problem, increase the costs of operation, and make it more difficult to operate successfully and at a profit. Increases of pay without relation to productivity if granted will do the same thing. Furthermore, any increase in pay will also be reflected in the costs of materials and supplies. This point has been conveniently overlooked. Also is forgotten the proposed reduction in income taxes beginning in 1946 to individual workers. The effect of this should be the increase of the take-home pay.

In the October 27 issue of *Business Week*, page 106, appears an excellent analysis of war time wage increases during 1941-44. For all manufacturing industries it was 78 percent. For durable goods, the highest railroad cars 87 percent to the low, radios and phonographs 45 percent: in the non-durable goods the high, women's wear, 121 percent to the low, newspapers and periodicals 32 percent: in non-manufacturing industries the high, bituminous coal 101 percent, the low, telephones 23 percent. These tables present a striking contrast of the industry-to-industry changes in the wage picture and demonstrate the impossibilities of developing any formula for a flat rate increase which would settle the question.

There seems to be no discussion of the subject of real wages or the fact that lower prices would offset

the decrease in take home pay. I haven't heard any thought or consideration given to the plight of the white collared workers, the fixed income groups, the small businessmen. They are being liquidated and if something isn't done they soon will be as extinct as the carrier pigeon or the dodo bird.

### Wage-Price Policy

Mr. Truman's wage price radio talk has developed all shades of opinion. The one I like best is quoted from Mr. John Lewis' United Mine Workers' Journal which asserted that the wage-price policy "enlarged the realm of confusion". The St. Louis Post-Dispatch in an editorial says "Mr. Truman's suggestion solves nothing. It adds further confusion to a situation that was already sadly confused." The editor of *Business Week* in the issue of Nov. 3 says that "the speech may go down in history as the mildest mannered statement that ever scuttled a ship or cut a throat." "Its intention no doubt was to pour oil on troubled waters. Its effect almost inevitably will be comparable to that of spraying gasoline upon an already spreading conflagration."

Mr. Truman suggests that you read the speech carefully. I suggest that you do just that because by implication two ideas are suggested. (1) The continuation of the OPA after June 30, 1946. (2) The implied suggestion that additional controls will be necessary to make effective his profit sharing-tax relief sharing proposal, which will according to Raymond Moley "constitute a greater government adventure in private enterprise than the N.R.A." It will certainly last a long time if that is the only way we can eliminate strikes and make it possible to produce.

He does suggest a plan which is definitely inflationary if it works, which I doubt, and if it does not, will be contributing to continuous labor disputes. What about the rights of a very large group of unorganized workers, white collar employes, the fixed income group, the social security pensioners? Do they also have a president who is concerned about their problems?

Do you recall that poem that re-

counted the loss of a kingdom through the loss of a horseshoe nail? Are we about to embark on an experiment freighted with dire consequences all for the lack of a real labor policy because we are unwilling or unable to take a stand for fear of political consequences.

### Hold to Sound Practices

As *credit men* you occupy a key position in this discussion. You certainly are conscious of the fact that sound business practices must be maintained and that anything that detracts from sound principles or anything which encourages sloppy thinking or careless action must be promptly eliminated. Whether or not a concern is making a profit or has prospects of doing so, certainly is a primary point in your decision in establishing credit relationships. Are you willing to advance funds now to a firm and then with the firm wait six months to discover whether that firm is entitled to any increases in prices to cover its increased costs, and then with the firm wait for an indefinite period before the case will be presented for consideration and for an answer? What if the reply is unfavorable? Can sound credit relationships be established on such contingencies?

If you agree with me, and I hope you do, then your job is cut out for you. You cannot remain silent but must become vocal. You must be able to act as a group or as individuals in order to furnish facts to combat the propaganda of the labor leaders and the left wing politicians. (Incidentally, they are well supplied with trained help to prepare their propaganda.)

You certainly are interested not only in preserving your own firm as a going concern but also all of your customers and the entire economy.

There is only one way to increase pay and that is through increased production, through developing incentives which will decrease costs. Any other way increases costs and sooner or later will be reflected in increased prices or decreased profits or inferior products or a closed plant. If wages are permitted to advance because of pressure, then forces have been loosed which will

hurry on the wildest boom we have ever known and also accelerate the development and arrival of a collapse, the size and extent of which I hesitate to predict.

This is not an academic question nor a political one but a very practical and important one, of immense importance to all of us both from the immediate effects and the long time effects. Any collapse in the next few months or years will be much more serious than anything which has occurred previously. The blame will be placed on you gentlemen since you personify business. I suggest you examine the full employment bill and the propaganda behind its adoption.

### Would Have More Controls

There is a growing segment of our population that are extremely anxious for government to take over and to introduce some form of totalitarian or communistic control. A collapse now would furnish the excuse and opportunity to take over. As credit men you may have become rusty during the war period and your keenness and alertness may have been dimmed because of the fact that in reality you have only had one customer to deal with directly or indirectly. In returning to a competitive economy all the well established principles and practices as credit men will have to be restored. Character, capacity, capital, and conditions are still as important as ever, maybe more so. The significant point is that our problems have become more complex. More knowledge, training, and study is required to understand and to solve the problems as they present themselves. You cannot rely exclusively on the static presentation of the position of your customers as indicated by its balance sheet or operating statements in making your decision. You must realize the importance of current changes. You should be particularly concerned about the type of an accounting system the firm maintains, whether it is pre-war (and of course I mean Civil War) or whether it is post-war, and by that I mean 1945.

Here are some significant questions.

Do they have an up to date accounting system?

Do they have a modern cost system tied in with their general records?

Do they have a budget?

Do they control their inventory? How?

What about their labor relations? Good, bad, or what have you? (All blame by no means rests on labor, some of it must be placed on management).

Do they have a flexible budget, and do they have a break-even point, and do they understand the relationship between the selling price, the volume of business, the capacity of the plant used, the costs incurred, and profits? Do you understand that relationship? To comprehend this would help to understand the controversy between price and wages since the solution of the question revolves around this knowledge.

Do they have a proper distribution system, and does their accounting system disclose profitable activities, and reveal unprofitable lines and methods?

### We Financed One Job

We have just ended the greatest war in all our history. We achieved victory through the cooperation of everyone, through developing the greatest industrial organization ever known. In a comparatively short time we produced the necessary war materials to achieve victory and at the same time supplied the wants of our allies, manufactured consumers' goods to the extent of ninety billions of dollars a year.

(1) We enter the postwar period with this great productive organization intact, with billions of dollars invested in new plants, new equipment, and with the knowledge and experience of using them.

(2) We have the largest trained force of labor in our history the same force which contributed successfully to production of war materials.

(3) We have millions of returning veterans, who through their sacrifices and hard work have made victory possible. They have been trained to cooperate, to work hard, and to get results. They are desperately anxious to get started once again to make up for all these lost

years, and to resume their civilian status in a community geared for peace for which they fought.

(4) We have the greatest backlog and potential demand for goods to satisfy these wants.

(5) We have the greatest accumulation of savings, capital, plus the purchasing power which will be created by the new production. This total is so large that it is hard to realize what it means.

Are we going to allow organized selfishness to make it impossible to reconvert promptly and in an orderly manner, to start production, to pay the highest possible wage consistent with labor's productivity aided by modern machinery and direction, to establish the lowest selling price possible in order to achieve the broadest distribution at a profit, and to continue that process?

Are we going to rush pell-mell into a situation, disregard all sound advice, judgment, and experience, create a condition which will harm everyone including those that are "jumping the gun".

Are we going to permit stupidity and short sightedness spoil this golden opportunity?

### Fraudulent Advertising Law in Illinois Changed

Chicago: Credit executives will be interested to know that the recent new law enacted by the General Assembly of Illinois amends the present fraudulent advertising act so as to include credit, money, sales, purchases or contracts with reference to merchandise, securities, real estate, service, employment or, in fact, anything offered to the public for sale, purchase, loan, distribution or the hire of personal services. The penalty for violation is fixed the same as for misdemeanors.

### Capacity Crowd Attends Louisville Lectures

Louisville: Hallett Abend, nationally known lecturer and writer and close student of the Far East, was the principal speaker at the January 23rd meeting of the Louisville Credit Men's Association. He talked on the subject "Have We Backed the Wrong Horses."

W. B. Gratzner, financial analyst of the *Louisville Times* also gave a large number of credit executives and their bosses, present at this meeting, an interesting and instructive analysis, "The Stock Market Rise—What It Spells for Business."

# CHATTEL MORTGAGE CONTRACTS

## *Third in a Series of Discussions of Secured Sales*



Let us avoid technical language in treating this subject and instead of giving abstract legal definitions of a chattel mortgage, tell what and how things happen when one comes into existence. A borrows money or purchases merchandise, from B. A debt has now arisen; A owes B a sum of money. B, however, not being satisfied with A's credit insists that A furnish security for the debt. In response to this insistence, A passes title to certain personal property to B (or gives him a lien on it according to the jurisdiction where the transaction originates). Contrary to other transfers of property B ordinarily does not take possession of the merchandise or articles but A, the mortgagor, continues to retain possession.

The title (or the lien) in B is defeasible, however, by payment of the debt or performance of the conditions of the obligation. What B may do with the property upon default or performance of the conditions will be set out further under appropriate headings and according to the various statutes and decisions of all the states, one by one.

It will undoubtedly be readily seen here that a chattel mortgage and conditional sale are distinguishable generally by the question of title. When a seller retains title in himself while the debt is unpaid, the transaction is usually considered a conditional sale. But the principle upon which a chattel mortgage is founded is that the debtor is the absolute owner of the property to be mortgaged. Title is vested in him.

If the debtor is purchasing a machine or some other article from the creditor he may mortgage it back instantly to the latter. If he

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Affecting Trade*

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is borrowing money instead of buying merchandise, he may mortgage property of which he has already been owner. But in either case title resides in him, else he could not give a mortgage of the property.

### **How Seller May Be Secured**

The seller may, by memorandum, bill of sale or contract of sale, sell the property in question to the buyer. The buyer may then simultaneously and as part of the same transaction, give a chattel mortgage back to the seller on the same property. The mortgage thus secures the purchase price. The contract of sale may contain a provision by which the buyer agrees that he will execute and deliver a chattel mortgage to the seller in form and contents satisfactory to the seller, of the article or articles described in the instrument. But unless the seller sees to it that the mortgage is executed and recorded as required by law at once, the rights of other parties may intervene and take precedence.

The courts do not require chattel mortgages to be drawn according to any prescribed phraseology as long as they purport to pass title (or give a lien) as security for the payment of a debt or performance of some obligation, and that they provide that the conveyance shall be void upon payment of the debt or performance of the obligation.

Oral chattel mortgages were not

necessarily ineffective formerly if they could be proved, but statutes requiring writing, acknowledgments, affidavits and recording have practically rendered such discussion entirely moot in recent times.

Some states do prescribe forms of chattel mortgages, but even in these states it is generally held that they are not exclusive.

### **Drafting of the Instrument**

As in the case of conditional sales, chattel mortgages should be drafted with reference to the statutory requirements and the judicial interpretations of each state where the instrument is to function.

Chattel mortgages are generally more standardized than conditional sales; for this reason blank forms may be procured at stationers handling legal blanks.

But the mere wording of the mortgage is almost insignificant compared to the requisites as to signatures, acknowledgments, affidavits and the filing or recording of the instrument to fully protect the mortgagee (seller) against third parties.

Chattel mortgages are drawn in almost an infinite variety of ways. They may state, for example, (as in the body of the note which it secures) the total purchase price, the down payment and the terms of the payment of the balance. They may contain the simplest words of conveyance, as viz.:

"The Grantor does hereby sell and transfer unto the Grantee," (description of property).

And the *habendum* and *defeasance*<sup>1</sup> clauses may be likewise simple, as viz.:

<sup>1</sup> *Habendum*—to have and to hold.  
*Defeasance*—how it may be voided.



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"To have and to hold said property forever; conditioned nevertheless, that if the Grantor pays the Grantee the above total purchase price then this mortgage to be void."

In addition the mortgagee may reserve as many other rights as he chooses, such as retaking possession, having public sale, application of proceeds, requiring insurance, inclusion of taxes, insurance premiums and attorney fees in the judgment.

But it must always be remembered that the seller who contemplates using chattel mortgages to secure sales, or who is now using them, should ascertain whether he is complying with state statutes with respect to formalities of execution and whether he can enforce the provisions he wishes to incorporate, according to the decisions in any state in question.

Discussions of chattel mortgages will necessarily have to be limited in the space of this article to the types of transactions generally entered into by sellers of manufactured articles. Therefore questions of the validity of chattel mortgages on crops will not be treated here.

Undoubtedly many sellers are interested in the question as to whether a mortgage on stock in trade on the mortgagor's shelves, constantly replaced by new stock, is valid. In many of the states statutes now make chattel mortgages effective as against third parties on property to be substituted for, or added to the stock on hand, under certain conditions. But the mortgage must clearly express such intent and the property to be covered described sufficiently so that when it is acquired it can be identified.

### Description of Property

This brings us to an important point in chattel mortgages—the description of the property under the mortgage. As between mortgagor and mortgagee the description need only be full enough to enable the two parties to identify it. As to third persons (and this applies to all mortgages to be filed and recorded) the description must be specific enough that such third persons can identify the chattels from the description (plus any as-

sistance from making inquiries and other parol evidence).

A credit man who draws a mercantile report on a customer and learns from the report that the customer has given a chattel mortgage, should explore this information further (provided the credit investigation warrants the precaution). If the report is too sketchy to indicate what property has been mortgaged, there will usually be sufficient information as to the place of record. A certified copy of the instrument or a memorandum of it can be procured through the office of the recorder or a local attorney or credit association branch. Then the investigator will be enabled to discover whether the customer has encumbered his property for a loan, or whether he has purchased some machinery or equipment on the secured sales basis. The description in the mortgage will supply the needed information.

Sellers who take mortgages on articles which might become part of a larger mass of articles of the same kind and might not be distinguishable from the mass, should be careful to see to it that there is some kind of separation of the articles so that identification will be facilitated.

A chattel mortgage should set out the amount of the debt it secures and the terms. If there is a note (or notes) the particulars should be stated.

### Delivery of Possession

The filing or recording of a mortgage is considered a substitute for the transfer of possession. Suppose A takes a mortgage from B on pig iron manufactured by B; instead of recording the mortgage A takes possession in this manner: a fence is erected around the pig iron on B's premises and signs are hung on the fence stating it to be A's property. Is this a good mortgage against creditors of B? One court at least held it to be good for cash loans advanced to B. Suppliers of credit in ignorance of the unrecorded mortgage registered chagrin futilely.

As to other matters to be treated in this article (including the manner of execution, recording and remedies of the mortgagee) they will be taken up according to states.

**ALABAMA:** Chattel mortgages must be recorded in the office of the judge of Probate in the county where the grantor resides, also where the property is located at the date of conveyance. If the property is removed to another county it should again be recorded within 3 months.

When mortgaged property is brought into the state the mortgage must be recorded in the county where it was brought, within 3 months.

Code of Ala. 1940—Title 47, Secs. 94, 110, 111.

The recording operates as notice to all parties and acknowledgment is not required for registration. Sec. 102.

As a matter of good practice, however, a chattel mortgage should either be acknowledged or witnessed by two witnesses as available proof of execution in case of litigation.

Upon payment mortgagee must enter satisfaction on margin and this is to be attested by the judge of Probate or his clerk.

Mortgagees in Alabama are always entitled to immediate possession (subject to mortgagor's right of redemption); but this right does not accrue till default where the mortgage itself authorizes seizure only after such event. The mortgagee may take possession but may not breach the peace in the slightest.

The mortgage may contain a power of sale provision and the mortgagee may foreclose in equity (subject to mortgagor's rights of redemption) and sell without taking possession. He may also sue at law.

**ARIZONA:** Except as between the parties themselves no chattel mortgage shall be effective unless the residence of the mortgagor and mortgagee, the sum to be secured, the rate of interest, when and where payable, are set out. The mortgagor and mortgagee must also make affidavit that the mortgage is bona fide and made without any design to defraud or delay creditors, and the affidavit is to be attached to the mortgage. The mortgage, or true copy, is to be filed then forthwith in the office of the county recorder where property is situate, and if the mortgagor is also a resident of the state then it is to be filed in addition in the county of his residence. The residence stated in the affidavit or in the mortgage shall be presumed to be his residence for the purpose of recording.

Satisfaction must also be entered of record within 30 days after request of mortgagor.

If the property is removed to another county by consent of the mortgagee the mortgage must be recorded in the new county.

A chattel mortgage on a merchant's stock in trade is void in this state, but certain after-acquired property (livestock, animate chattels and crops) by recent legislation (Laws of Arizona 1940, Chap. 86) may be covered.

The mortgagee may foreclose by notice and sale, unless the contrary has been



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agreed to in writing, or foreclose in court. The notice must contain a description of the property, the time and place and terms of sale. It must be posted in three public places (besides being served on mortgagor) at least ten days before the sale and at least once in a newspaper.

The person conducting the sale gives the purchaser an absolute title.

See Arizona Code 1939, 62-521 to 529.

**ARKANSAS:** Chattel mortgages must be acknowledged or subscribed and proved by two witnesses, and recorded in the circuit court clerk's office in the county where the mortgagor resides. If he is a non-resident then it is to be recorded in the county where the property is situated.

The recording is valid for the same period as the debt but it may be extended by indorsement on the margin of the record.

A chattel mortgage may be filed instead of recorded if there is indorsed on it: "This instrument is to be filed but not recorded." This indorsement is to be signed by the mortgagee.

The filing or recording makes the mortgage good against all parties, but the mortgage is good against the mortgagor whether there is any filing or recording.

Satisfaction is to be entered on the record.

A mortgage on stock in trade is undoubtedly good but the Bulk Sales law must be observed. Nevertheless the mortgage might not cover replacements unless a new one is made.

Foreclosure by sale may be made but certain steps must be observed according to Sec. 9460 (notice), 9461 (appraisers), and amount to be realized, 9464, of the Statutes of Arkansas.

Foreclosure may also be made by suit, but in either case the mortgagor has the right to redeem.

See Secs. 9434-9479.

**CALIFORNIA:** Chattel mortgages may be made on all kinds of personal property and the effective against third persons except property not capable of manual delivery, articles of wearing apparel, stock in trade of a merchant. Civil Code Sec. 2955.

Sec. 2956 gives the form.

Sec. 2957 gives the requisites to validity against third parties, as viz: where it covers personal property other than crops or animate personal property it is to be recorded in the office of the recorder of the county where the mortgagor resides at the time of execution, also in the county where the property is located. It must also be recorded in any county to which the property is hereafter removed.

The mortgage should be acknowledged or proved by one witness and certified.

The recording shall be good for 4 years but may be renewed by a certificate of rerecording. For form see Sec. 2957.

Mortgages of fixtures are governed by the Bulk Sales Law.

Mortgages on ships are recorded in the office of the collector of customs where the vessel is registered.

Mortgages on aircraft or parts are to be recorded according to United States laws.

Foreclosure may be made by sale upon giving statutory notice, or by judicial sale in a court of equity.

See Sec. 2967; 27 Cal. 258.

The mortgagee must satisfy the mortgage record immediately upon demand of the mortgagor.

**COLORADO:** To be effective against third persons, possession must be in the mortgagee or the mortgage must be acknowledged by the mortgagor and certified and filed or recorded.

For form of acknowledgment see Ch. 32, Sec. 3, Colo. Statutes Annotated.

If filed the mortgage is filed in the office of the clerk and recorder of the county in which the property is situated, but the mortgagee may record the mortgage, or copy, in the public records of the same county.

The lien is good for not more than 2 years if the principal sum of the mortgage does not exceed \$2500; not more than 5 years if the debt is more than \$2500 but not in excess of \$20,000; and not more than 10 years if the debt is more than \$20,000. But if the debt is over \$2500 the mortgagee must sign a sworn statement within 30 days after 2 years from filing, and annually thereafter, showing (1) that the mortgage was given in good faith to secure payment of the money, and (2) that it still remains unpaid or if some of it has been paid, how much remains unpaid.

The mortgagee need not take possession for 6 months after maturity and until possession is taken the mortgagor has the right to pay the debt.

The lien may be extended within 6 months of maturity by a sworn statement of the mortgagees showing total payments and balance and the period of extension is not to exceed 2 years.

The mortgagee must satisfy the record upon payment by notation on margin or by separate instrument acknowledged.

A chattel mortgage on stock in trade is valid if the mortgage provides that money realized from sales shall be applied for with on the mortgage.

See Ch. 32, Sec. 1-20.

The mortgagee is entitled to possession upon default and if the mortgagor wants to redeem he must resort to equity.

The mortgagee may foreclose by sale upon proper statutory notice but the directions in the mortgage must also be observed. Foreclosure by suit in equity is also available.

**CONNECTICUT:** This state has a peculiar statute which makes mortgages valid against third persons (if possession is retained by mortgagor) only when on certain types of property and recorded. See Sec. 5092 of Conn. General Statutes 1930, for the types of property included.

Chattel mortgages must be acknowledged, attested by two witnesses and recorded within 15 days with the town

clerk where the mortgagor resides and also where he does business.

The remedy of mortgagee is set forth in the statute as viz: mortgagee brings complaint to court and court may order sale unless the debt is paid within a time limit set by the court. If the avails of the sale are insufficient to pay the debt and costs, the court may render a judgment for the difference.

Sec. 5092.

Mortgages of after-acquired property of the type mentioned in Sec. 5094 are valid.

Satisfaction is to be delivered by mortgagee to the town clerk upon payment.

**DELAWARE:** A chattel mortgage to be valid against all parties must be signed, sealed and delivered by mortgagor, and acknowledged and witnessed, and recorded. It is to be lodged for record in the Recorder's office for each county where any of the property is held, within 10 days from the time of acknowledgment.

The period of validity is 5 years.

Sec. 3333 Revised Code of Del.

There must also be indorsed upon or annexed to the mortgage, and recorded, an affidavit that the mortgage was made for the bona fide purpose of securing a debt or making indemnity, and was not made to cover the property of the mortgagor or protect it from his creditors or to hinder and delay them in the collection of their debts.

Sec. 3336.

If default continues for 60 days the mortgagee may proceed at law for foreclosure and sale, as in the case of mortgages on real estate.

Sec. 3334.

**DISTRICT OF COLUMBIA:** To be valid against third persons, chattel mortgages (chattel deeds of trust commonly used) must be acknowledged and within 10 days from the date of acknowledgment, filed in the office of the recorder of deeds.

42-101, 102, District of Col. Code. Remedy is by foreclosure, suit, decree for sale. 44 D. C. App. 306.

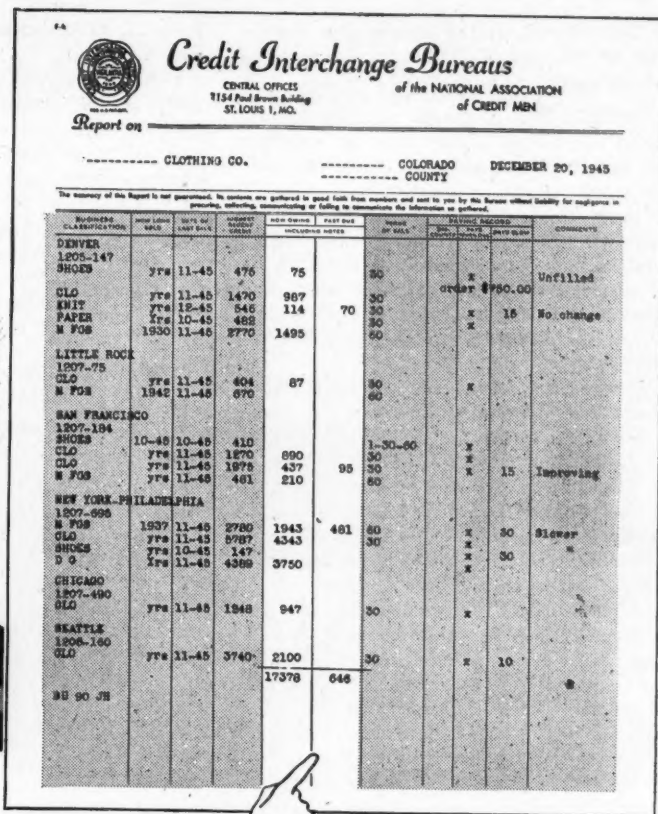
**FLORIDA:** A chattel mortgage to be valid against third persons must be witnessed by two witnesses and acknowledged (or proved by one of the subscribing witnesses) and recorded in the office of the clerk of the Circuit Court in the county where the property is located.

The period of validity is 7 years, but this period may be renewed for additional periods of 7 years by the holder of the mortgage filing an affidavit stating interest and the nature and the amount unpaid.

Satisfaction is entered on the margin of the record.

Except for mortgages in favor of the government of U. S. or its agencies, and livestock mortgages, (in which cases foreclosure may be made by virtue of power of sale in the mortgage), the remedy lies in foreclosing in equity.

698.03-11; 699.01-14; 700.01-03; 701.01-06 and 702.01-09—Florida Statutes.



## 25

The Florida statute requires a stamp tax of 10c per \$100 for unpaid portion of obligation.

**GEORGIA:** A chattel mortgage to be valid against all parties must be attested by or acknowledged before an officer and recorded.

It is to be recorded in the county where the mortgagor resides if a resident, and in the county where the property is if a non-resident. If it is on stock-in-trade it shall be recorded in both counties if the mortgagor resides in a different county.

The validity runs for a period of 7 years but it may be renewed for successive 5-year periods by filing affidavit.

Satisfaction is to be entered of record.

The statute provides specifically that while the lien is lost on articles disposed of by a mortgagor (who has mortgaged stock in trade) it attaches to the purchases made to take their place.

67-101 to 122. Georgia Code.

Remedy may be by foreclosure as viz: mortgagee makes affidavit of the principal and interest due and annexes it to the mortgage. This shall be filed with the clerk of the Superior Court and the clerk issues execution to the sheriff ordering a sale. However, foreclosure may also be through equity proceedings.

67-601 and 67-701.

**IDAHO:** To be valid against subsequent purchasers, encumbrancers and creditors having liens, chattel mortgages (where possession is retained by mortgagor) must be acknowledged, or proved as in the case of a real estate grant, and filed for record. It (or a true copy with affidavit that it is a true copy) shall be filed with the county recorder of the county where the property is located.

After so filing, it may also be filed with the Secretary of State and it will have the effect of being filed in every county.

Property removed from one county must be done with written consent of mortgagee and the mortgage must be filed in the new county.

The period of validity runs for 3 years after maturity of the debt, but it may be renewed for successive 3-year periods by affidavit of the mortgagee as to the status of the debt. This must be filed before the expiration of the 3 years. The affidavit is to be filed in the county recorder's office, and may also be filed in the office of the Secretary of State. Idaho Laws 1945, Ch. 11.

Satisfaction is entered on record either by entry on margin or filing a certificate of release.

A mortgage on stock in trade is probably not valid as to third persons except perhaps if the proceeds of sales are applied to reduction of the debt and mortgage drawn that way.

Remedy of the mortgagee lie either in foreclosure by notice and sale in accordance with 44-1010 to 1018, or in equity proceedings in court.

**ILLINOIS:** To be valid against third persons a chattel mortgage must be acknowledged and recorded or filed. For

form of acknowledgement see Ch. 95, Sec. 2.

It must be filed or recorded in the office of the county recorder within 10 days of execution.

It is to be filed or recorded in the county where the mortgagor resides; if he is a non-resident it is to be filed where the property is situated and kept.

The period of validity is for 90 days after maturity of the entire debt or 90 days after any extension except that the aggregate whole period is not to exceed 5 years.

The lien may be renewed if the entire debt matures within 4 years if an affidavit stating the mortgagee's interest, the balance due and when payable, signed by both parties is filed. The extension period cannot exceed one year but this affidavit extends the lien 90 days beyond the extended period. Sec. 4.

If it is to be filed the mortgagee endorses upon the instrument, "This instrument is to be filed but not recorded." Sec. 5.

For forms of release see Ch. 95, Secs. 9-11.

The mortgage may contain a power of sale and authorize the sheriff to advertise and sell the mortgaged goods. Sec. 12.

However, chattel mortgages on household goods must be foreclosed in a court of record. Sec. 24.

All notes secured by chattel mortgages must state on their face that they are secured, and any assignee or endorsee is subject to any defense between the original parties, (mortgages and notes on livestock, crops, seed or fertilizer are excepted). Sec. 26.

Mortgages on stock in trade to be sold in usual course of business are not valid in this state unless possession is taken before rights of third parties intervene.

**INDIANA:** To be valid against third persons a chattel mortgage must be acknowledged and recorded in the recorder's office in the county where the mortgagor resides; if he is a non-resident then where the property is situated. It must be filed within 10 days after execution.

Burns' Indiana Statutes Anno. 33-301, 302.

A stamp tax of 5c per \$20 of amount secured by mortgage must be paid annually.

64-901 sqq.

The period of validity is 3 years but it may be renewed for another 3 years if the mortgagee files a statement showing status. But a mortgage which covers both real and personal property is good for 20 years after maturity of the last installment.

Acts of Ind. 1937, Ch. 171.

A special Act enabling the financing of agricultural products and implements by chattel mortgages is found in Acts of Ind. 1935, Ch. 147.

A chattel mortgage on household goods may not give the mortgagee a power of sale. Sale must be judicial in a court proceeding. A mortgagee under a mort-

gage on household goods must give a statutory form of receipt.

See 51-201 to 203.

A mortgage on stock in trade while good between parties is not effective as against innocent purchasers for value.

85 App. 109.

**IOWA:** To be valid against third persons a chattel mortgage must be acknowledged and it (or true copy) is to be recorded or filed with the recorder of the county where the mortgagor resides; if he is a non-resident then where the property is situated.

Code of Iowa—10015.

The lien is good for 5 years but an extension agreement may be filed to continue the lien.—10023.

Satisfaction of record is effected by a release filed or mortgagee indorsing satisfaction on the margin of the record. 10028.

Mortgages on stock in trade and book accounts are held valid in this state.

Remedy of mortgagee is foreclosure by notice and sale unless a stipulation to the contrary has been agreed on, or by action in court. For details see 12352-12363.

**KANSAS:** To be valid against third persons a chattel mortgage (or copy) must be recorded in the office of the register of deeds in the county where the mortgagor resides; if he is a non-resident then in the county where the property is situated.

Kansas General Statutes 58-301.

The lien runs for 2 years but may be renewed if within 30 days of expiration and each 2 years thereafter the mortgagee files with the mortgage an affidavit reciting the status. 58-303.

Entry of satisfaction is to be made in the book in which the mortgage is entered. 58-308.

Remedy is by notice and sale—written or printed handbills to be posted in at least 4 different public places at least 10 days before the sale.

See 58-309-311.

The Bulk Sales law is applicable to chattel mortgages including sales under foreclosures.

Chattel mortgages may cover any kind of personal property but when on stock in trade a provision must be made to account to the mortgagee for sales. Local counsel should be consulted.

**KENTUCKY:** In order to be valid against third persons a chattel mortgage must be acknowledged or witnessed by two witnesses (one must also prove the execution and attestation before the County Clerk) and filed with the County Clerk of the county where the mortgagor resides; if he is not a resident then where the property is situated.

Satisfaction is recorded by notation in "remarks" column in the "chattel mortgage minute book."

The period of validity runs for 7 years unless before the expiration of such term the mortgagee files a statement showing status and then the period is extended another 7 years.

The statute expressly provides that a

chattel mortgage may include replacements of any of the mortgaged property described.

Kentucky Revised Statutes 1944. 382.600 to .720.

A chattel mortgage may be given with or without power of sale.

Remedy of mortgagee may be by notice and sale (subject to mortgagor's right of redemption) or suit to foreclose the mortgage.

LOUISIANA: As noted under this state on Conditional Sales, it recognizes only chattel mortgages as security of this type. Conditional sales are invalid. A form of instrument which combines a bill of sale and chattel mortgage may be obtained from legal stationers in New Orleans or other important cities.

To be valid against third persons the mortgage must be executed before a notary in the presence of 2 witnesses, or by private act acknowledged by one of the parties, or by a subscribing witness; and it (or a certified copy) is to be recorded in the office of the recorder of mortgages in the parish where the act of mortgage is executed and also at the domicile of the mortgagor (in the city of New Orleans, mortgage office for Parish of Orleans).

The Notary also takes a memorandum on the note comparing it with the terms stated in the mortgage.

Satisfaction of record is effected on record as a cancellation of a real estate mortgage.

The period of validity is 5 years but may be renewed for five-year periods by mortgagee filing affidavit as to status.

Mortgages may cover stock in trade but the Bulk Sales Act is applicable.

Chattel mortgages on fixtures are unimpaired even though the realty be sold.

See Acts of State of Louisiana, 1944, Act 172.

Remedy is by sale under executory process issued by court.

MAINE: To be valid against third persons a chattel mortgage must within 20 days from the date of mortgage be recorded in the office of the clerk of the city, town or plantation organized for any purpose, in which the mortgagor resides. If a corporation, it may be recorded where it has its established place of business.

Chattel mortgages need not be acknowledged for record.

Chattel mortgages on stock in trade are valid as to replacements but the mortgage should so specify.

Validity of the lien endures till the debt is paid or barred by the statute of limitations.

Though the mortgagor has the right of redemption it must be exercised before sale. Sales may be had under power of sale and on proper notice. The mortgagee may also foreclose in equity according to the procedure outlined in the statute.

MARYLAND: To be valid against third persons a chattel mortgage must be acknowledged and recorded. The mortgagee must also make affidavit that the consideration is true and bona fide.

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If in Frederick County there must be included an affidavit that on interest paid in advance the tax is, or will be paid by the mortgagee.

The mortgage is to be recorded in the county or city where the mortgagor resides. If the mortgagor resides in Baltimore or is a non-resident and property is located there, the mortgage must be recorded in the City of Baltimore.

The mortgage is to be filed with the clerk of the Circuit Court of the county, or clerk of Superior Court of Baltimore.

Satisfaction is entered on the margin of the record.

The courts in this state hold that mortgages are not entitled to a lien on replacements of stock in trade. However, counsel in this state are drawing mortgages making the mortgagor agent of the mortgagee to collect the proceeds of sales. See 78 Md. 263.

Annotated Code of Md.

Article 21.

Note strict regulatory Act on retail installment sales also mentioned under Conditional Sales Contracts in previous article.

Laws of Md. 1941, Ch. 851.

Foreclosure in chancery is mortgagee's remedy, which leads to sale and deficiency judgment, if proceeds are insufficient to cover debt.

**MASSACHUSETTS:** To be valid against any purchasers or attaching or lien creditors a chattel mortgage must within 15 days after date be recorded in the office of the clerk of the city or town where the mortgagor resides, and where he principally transacts his business. If he is a non-resident the mortgage is to be recorded where the property is situated.

The statutes do not prescribe the duration of the lien therefore the lien is undoubtedly good till the debt is paid.

The mortgagor may redeem any time before the property is sold or before the right of redemption is foreclosed.

Mass. Anno. Laws Ch. 255, Secs. 1-4.

The remedy of the mortgagee: he may foreclose without a sale by giving statutory notice to the mortgagor (Sec. 5) and recording the notice, with an affidavit of service where the mortgage is recorded (Sec. 6). If the mortgagor does not redeem in 60 days his right to redeem is foreclosed (Sec. 7). But under a power of sale and sale at public auction the mortgagee may proceed without compliance with the foregoing statute.

211 Mass. 320.

The notice of intention to foreclose a mortgage given to secure loans of less than a \$1000 must expressly state where the notice is to be recorded and that the right of redemption will be foreclosed in 60 days after such recording.

Ch. 140, Sec. 93.

Mortgages on stock in trade are good on the existing merchandise but not replacements except if the mortgagee takes possession.

**MICHIGAN:** To be valid against third persons a chattel mortgage (or true copy) must be filed in the office of the register of deeds of the county where

the goods are located and also where the mortgagor resides. The mortgagor or mortgagee or some person having knowledge of the facts must also annex an affidavit to the effect that the consideration was actual and adequate and that the instrument was given in good faith for the purposes set forth in it. Copy of the affidavit may be annexed to the copy of the mortgage.

The mortgage is to be filed also in the county where the goods may be removed.

Satisfaction is entered by written instrument filed where the mortgage is filed and mortgage returned to mortgagor on request.

Duration of the lien is 3 years but the mortgagee may renew for additional 3-year periods by annexing to the mortgage within 90 days prior to expiration, an affidavit setting forth the status.

Compiled Laws of Mich. (Cumulated Suppl. 1940).

13424-13432, also Public Acts 1941, Ch. 81.

Recording of a chattel mortgage is not necessary if goods owned by a non-resident and located outside the state at the time of execution are brought into the state without written consent of the mortgagee.

Public Acts 1941—Ch. 181.

A mortgage on stock in trade and fixtures will be void against creditors unless the mortgagee obtains a sworn list of creditors from the mortgagor and notifies the creditors personally or by registered mail within 5 days of the execution of the mortgage, of the sum secured by the mortgage and the terms and conditions.

Mich. Compiled Laws (1929) 9548.

Certain fixtures may be removed by the mortgagee if consent of prior real estate mortgage or land contract seller be endorsed; also conversion type oil burners, heating equipment which is accessory to other heating equipment already installed and can be removed without leaving the other equipment incapable of operation, also electrical refrigeration, may be removed.

The remedy of the mortgagee: hold the goods 10 days during which time the mortgagor may redeem. If no redemption the mortgagee sells at public auction if the mortgagor has paid at least 50% of the debt. The mortgagee may also recover a deficiency judgment.

See 1940 Suppl. 13509-1 to 12.

**MINNESOTA:** To be good against third persons a chattel mortgage must be executed in the presence of 2 witnesses and acknowledged and filed with the clerk or recorder of the town or municipality in which the mortgagor resides; if he is a non-resident it must be filed where the property is situated.

A mortgagee must give the mortgagor a full, true and complete copy of the mortgage, and the mortgage in order to be filed, must contain a receipt of the mortgagor that a copy has been received by him.

The mortgagee must give a satisfaction to be recorded and the officer surrenders the mortgage to the mortgagor.

Duration of the lien is 6 years unless the indebtedness is not yet due and payable by its terms in which case it shall continue 2 years after maturity.

Minn. Statutes, 511.01-511.07.

Certain household furniture, etc. cannot be mortgaged unless both husband and wife join.

Generally speaking mortgages on stock in trade are not effective against third persons, but if the mortgage contains a provision that the mortgagor is to apply proceeds of sales to the mortgage debt, and he so does, it may be valid.

The mortgagor may redeem any time up to foreclosure.

511-09.

If the mortgage contains a power of sale the mortgagee may sell at public sale upon giving statutory notice.

See 511.10-13.

The mortgagor may redeem from the purchaser within 2 days after the sale.

511.14.

The mortgagee may purchase at the sale.

511.15.

**MISSISSIPPI:** To be valid against third persons a chattel mortgage must be acknowledged or proved by a subscribing witness and lodged with the clerk of the chancery court in the county or district where the property is situated.

Miss. Code 1942, Anno. Ch. 868.

The lien endures until the debt is barred by the statute of limitations but renewal may be effected by marginal entry within 6 months after expiration.

Sec. 875.

Mortgages on property executed outside of the state and moved in must be recorded in the state.

Sec. 870.

Satisfaction is to be entered on the margin of the record.

Sec. 876.

It is doubtful whether a mortgage is good on replacements in stock in trade.

The remedy of the mortgagee lies in selling under a power in the mortgage. He may also bring a proceeding in equity to foreclose.

**MISSOURI:** To be valid against third persons a chattel mortgage must be acknowledged (or proved by a subscribing witness) and recorded with the County Recorder (City Recorder in St. Louis); or it may be filed. It must be recorded or filed in the county in which the mortgagor resides; if he is non-resident it must be filed where the property is situated. If it is filed it need not be acknowledged.

Satisfaction is entered on the margin, on presentation of the original mortgage and affidavit that it has been paid; or on presentation of an order of satisfaction attested by a notary public.

Duration of lien is 5 years on mortgages filed; on those recorded it is good as long as the debt is not barred by the statute of limitations.

Revised Statutes of Missouri (1939) Secs. 3486-3492.

If a chattel mortgagee takes possession he must comply with the Bulk Sales Law.

A mortgage on stock in trade is good

only between the parties unless the mortgagee takes possession or mortgagor undertakes to, and does apply proceeds of the sales to the mortgage debt.

A mortgagee may have his remedy by notice and public sale if there is a power of sale in the mortgage; if no power of sale the mortgagor's equity of redemption can be extinguished only by a regular foreclosure proceeding in court.

**MONTANA:** To be good against third persons a chattel mortgage must be acknowledged by the mortgagor and the mortgage must have attached to it the affidavit of the mortgagee to the effect that it is made in good faith and without design to hinder, delay or defraud creditors. (See Ch. 36, Laws of Montana 1941 as to affidavits of corporations). The mortgagee must give a copy to the mortgagor and the mortgagor must give a receipt for it which is attached to the mortgage and same is filed with the

County Clerk and Recorder.

Duration of the lien is 2 years and 60 days from the time of filing but it may be renewed during the last 60 days for another 3 years by mortgagee filing an affidavit as to the status. Satisfaction is endorsed upon the mortgage and same is noted by the County Clerk on the records.

The mortgage may provide that the sheriff execute the power of sale (granted to the mortgagee) by advertising and selling in the manner provided in the mortgage. After sale the sheriff makes report of the sale to the County Clerk where the mortgage is recorded.

Revised Codes of Montana (1935). Secs. 8276-8291.

A chattel mortgage on stock in trade is valid if the sales are for the benefit of the mortgagee and the mortgagor is to account to the mortgagee for the proceeds of the sales.

**NEBRASKA:** To be valid against third persons a chattel mortgage (or true copy) must be filed in the office of the County Clerk of the county where the mortgagor resides, or if he is a non-resident, in the county where the property is located. It need not be acknowledged unless on household goods and then both a husband and wife must execute and acknowledge.

Satisfaction is entered on the margin of the index and attested by the clerk; also clerk will discharge upon presentation of order in writing signed by mortgagee attested by a Justice of the Peace or notary with seal. Penalty upon mortgagee for failure to discharge after request by mortgagor.

Duration of lien is 5 years.

Revised Statutes of Nebraska (1943) 36-301 to 303.

The statute outlines the mortgagee's remedy. If the mortgage has a power of

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sale and is recorded the mortgagee may advertise (in accordance with requirements set out in the statute) and sell at public auction. The mortgagee may purchase at the sale.

69-101 to 108.

Mortgages on stock in trade are held void as to third persons in this state but local counsel draw mortgages with provision applying proceeds on mortgage debt.

**NEVADA:** To be valid against third persons a chattel mortgage (or a copy certified to be such by a notary public or other official empowered to take acknowledgements) must be filed in the office of the recorder of the county where the mortgagor resides, or if he is a non-resident, where the property is located. If the mortgagor be a corporation or a partnership it is to be filed in the county where the corporation or copartnership has its principal office.

The lien endures till the debt is paid or is barred by the statute of limitations.

Satisfaction is entered of record in the recorder's office.

Nevada Compiled Laws Suppl. 1931-1941. Secs. 985-988.01.

While the statute provides for foreclosure by court proceeding leading to sale and deficiency judgment (Nevada Compiled Laws 1929, Sec. 9048) it has nevertheless been held that it does not exclude the mortgagee from proceeding to sell under a power of sale.

If a mortgage is on stock in trade and it provides that the proceeds of the sales are to apply to reduction of the mortgage debt it is considered valid in this state.

**NEW HAMPSHIRE:** To be valid against third persons a chattel mortgage must be recorded in the office of the clerk of the town where the mortgagor resides; if he is a non-resident, where the property is located.

Discharge is entered of record where the mortgage is recorded.

The mortgagor and mortgagee must make an affidavit and it must be appended to the mortgage. For form see Sec. 9 of Ch. 262—Revised Laws of N. H. 1942.

Any agreements to subordinate other prior liens must be recorded.

Mortgages on stock in trade are valid against third persons if the mortgage provides for application of proceeds to the debt or for the purchase of property to be included in the mortgage, or for the preservation of the property.

Mortgagee's remedy is sale after 30 days of default upon proper notice and the mortgagee may be a purchaser at the sale. The mortgagor may redeem any time up to time of sale.

Revised Laws of N. H. 1942. Secs. 1-28 of Ch. 262.

**NEW JERSEY:** To be valid against third persons a chattel mortgage must be acknowledged or proved and recorded in the office of the county recording officer where the property is located at the time of the mortgage.

The mortgage must have annexed to it an affidavit or affirmation by the holder of the mortgage stating the consideration of the mortgage. Local counsel should

frame such an affidavit. The amount due or to become due should also be stated.

If the mortgagor is engaged in business, only one blanket recording necessary (even though a series of mortgages may follow). This recording is to consist of a statement under seal, executed and acknowledged by both mortgagor and mortgagee setting forth the location of the chief place of business of both parties, the fact that the mortgagor may execute and mortgagee may accept a series of chattel mortgage transactions arising out of the mortgagor's business, and a general description of the type of chattels. This statement need have no affidavit or affirmation annexed to it.

A mortgagee coming under such provisions must disclose to any person making the request whether any chattel in question is subject to the mortgage lien.

Any mortgage coming under this provision is valid for 5 years.

Chattel mortgages on household furniture are to be executed and acknowledged by both a husband and wife.

The duration of mortgage liens (except as to those coming under the above-described provisions touching mortgagors in business) is unlimited or until cancellation of record.

Cancellation is effected by presenting to the recording officer the cancelled or receipted mortgage or certificate of discharge. A decree from court ordering discharge may also be presented.

Revised Statutes of N. J. (1937) 46:28-1 to 13.

Mortgages on stock in trade should expressly contain a clause covering replacements and after-acquired property.

65 N. J. Eq. 552.

The mortgagee may, acting upon a power of sale in the mortgage, give the mortgagor due notice and sell the mortgages property. The mortgagee is bound to deal fairly with the chattels as to manner of sale and price obtainable. The mortgagee may also bring foreclosure proceedings in a court of chancery.

**NEW MEXICO:** To be valid against subsequent purchasers, judgment or attaching creditors and judicial assignees and trustees, a chattel mortgage (or copy) is to be filed in the office of the County Clerk of the county in which the property is located. It must be acknowledged.

The mortgagee must execute a certificate of satisfaction upon full payment, which must be acknowledged.

Assignment of mortgage must also be filed where the mortgage is filed.

The mortgagee upon default (unless otherwise provided in the mortgage) may take immediate possession but must proceed to sell the property or as much of it as is necessary to satisfy the debt. The sale is to be at public auction after notice as required for sales under execution. Where the amount is less than \$300 the notice may be by posting hand-bills in 6 public places at least 10 days before the sale.

The duration of the lien is 6 years.

Satisfaction is effected by filing certificate of satisfaction.

N. M. Statutes 1941, 63-501 to 514.

A chattel mortgage in stock in trade is not invalid against third persons, except if there be any evidence of fraud or collusion between mortgagee and mortgagor to hinder creditors of the mortgagor.

16 N. M. 497.

**NEW YORK—**To be valid against third persons a chattel mortgage (or a true copy) must be filed (for city of New York see below) in the office of the town or city clerk (or in the county clerk's office if there is one in such town or city) where the mortgagor resides; but if he is a non-resident, where the property is located. If the chattels are in the city of New York it must be filed in the county within the city of New York and also in the county where the mortgagor resides.

Filing offices for city of New York: Register's office in New York, Bronx, Queens and Kings Counties; County Clerk's office in Richmond County.

The statute in this state makes a chattel mortgage on stock in trade or fixtures used in business, valid if the mortgagor at least 5 days before the execution of the mortgage gives a full and detailed inventory with costs, and if the mortgagee obtains a written list under oath of the names and addresses of the mortgagor's creditors and the amounts owed to each, and notifies at least 5 days before the execution of the mortgage, each creditor personally or by registered mail of the proposed mortgage and its terms and conditions.

The duration of the lien is 3 years but it may be renewed for additional 1-year periods by filing within 30 days preceding expiration a statement as to the status, or a copy of the mortgage and a statement of the status attached. See Cumulative 1945 Pocket Part McKinney's Consol. Laws of N. Y. Anno. for specific directions for renewals in connection with New York City.

Any chattel mortgage filed in New York City must have indorsement on outside of the names of the parties, the amount of indebtedness and location of the property. Every renewal must in addition be stamped or marked "renewal" and contain a reference to the serial number and date of filing of the mortgage and the same information as to any prior renewals. (N. Y. City Administrative Code, Sec. 1052-17.0.)

A strict regulatory Act governs chattel mortgages to secure the purchase price of goods of \$1,500 or less, not for commercial or business use. This Act requires the forms of the mortgage printed in specifically sized type and outlines what the contents should consist of. It also sets forth the remedies of the mortgagee and the rights of the mortgagor. This type of chattel mortgage will hardly be commonly used by the readers of these articles, therefore citation of the Act will be noted here for those who wish to explore the matter further. See Secs. 239-239k 1945 Cumulative Pocket Part, McKinney's Consol. Laws of N. Y.

Assignments of mortgages by written

instruments and acknowledged, may be filed where the mortgage is filed.

Satisfaction is effected by mortgagee signing and acknowledging a receipt and this receipt is filed.

Secs. 230-236 Book 32 McKinney's Consol. Laws and 230-239k L 1945 Annual Pocket Part.

On any but a purchase-money mortgage the consent of the holders of not less than 2/3 of the outstanding shares entitled to vote, is necessary when a corporation is to execute a chattel mortgage.

(Stock Corp. Law Sec. 16, 1945 Annual Pocket Part.)

The mortgagee may, under power of sale proceed to sell in accordance with the extent of the power contained in the mortgage. The mortgagee must obtain as far as possible a fair market value.

But a mortgagee may also foreclose by an action in equity.

**NORTH CAROLINA:** To be good against third persons a chattel mortgage must be probated and registered. It must be acknowledged by the mortgagor (or signature attested on oath by one or more subscribing witnesses.) First the instrument is offered to the Clerk of the Superior Court who examines it and then if he is satisfied with the form, he orders it to be registered. It is then registered in the office of the County Register of Deeds in the county where the mortgagor resides; if he is a non-resident, where the property is situated. The residence of a corporation is its principal place of business.

General Statutes of N. C. 1943, 47-14, 47-17, 47-20.

Forms of acknowledgement in 47-38, 40 (husband and wife) and 41 (corporate).

The recording expires 15 years from maturity. 45-37.

Discharge may be effected by mortgagee signing margin in presence of the register; by presentation of original instrument endorsed by mortgagee. 45-37.

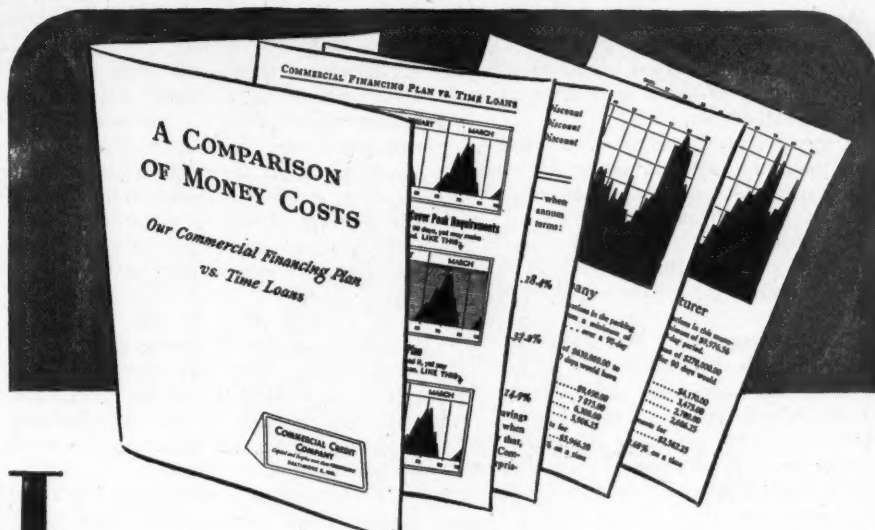
For form of chattel mortgage see 45-1, but this form is not exclusive.

If the mortgage provides for application of proceeds of sale to the mortgage debt and application is so made, a mortgage may be valid on stock in trade.

The mortgagee may foreclose by selling under the terms of the mortgage, by posting notice at least 20 days before the sale.

**NORTH DAKOTA:** To be valid against third persons a chattel mortgage (or authenticated copy) must be filed in the office of the register of deeds of the county where the property is situated. It must be acknowledged or signed in the presence of 2 witnesses who also sign as witnesses. The mortgagee must give the mortgagor a copy of it and the mortgagor must give the mortgagee a receipt for it, this being attached to the mortgage and filed with it.

The duration of the lien is 3 years but it may be renewed for an additional 3 years by filing within 90 days of the expiration a statement and affidavit as to the status.



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Any assignment of the mortgage is to be recorded.

Cancellation is effected by presentation to the register of deeds an acknowledgment of satisfaction.

If the mortgagor removes the property from the county without consent the mortgagee may take possession and dispose of it for payment of the debt.

For short form of a chattel mortgage see 35-401 of N. D. Revised Code of 1943.

For general provisions see 35-401 to 410.

The mortgagee may foreclose under a power of sale by publication of notice of sale, and having the sale. A report of the sale is made to the register of deeds where the mortgage is filed. The mortgagee may purchase at the sale.

The mortgagor may redeem within 5 days after the sale.

Secs. 35-2301 to 2320.

A mortgage on stock in trade is not good against third persons except if the mortgage is drawn so the mortgagor has power to sell for cash only and holds the proceeds for the mortgagee to reduce the debt.

**OHIO:** To be valid against third persons, a chattel mortgage (or true copy) must be filed with the county recorder of the county where the mortgagor resides; if he is a non-resident, where the property is situated. The mortgagee must subscribe an affidavit on the mortgage or attach it to same, as to the amount of the claim, that it is just and unpaid if given to secure the payment of a sum of money only. If given to indemnify the mortgagee against liability as surety for the mortgagor, the sworn statement is to set forth the liability and that the instrument was taken in good faith to indemnify against loss that might result.

Instead of filing, the mortgagee may have the mortgage recorded and satisfaction is then noted on the margin.

The duration of the lien is 3 years but it may be renewed within 30 days next preceding expiration or of the last refiling, for additional 3-year periods, by filing a true copy or the original mortgage with sworn statement (as above mentioned) attached or placed thereon.

A mortgage of both real and personal property (or true copy) may be recorded in the chattel mortgage book but it must first be recorded as a real estate mortgage. Then only a memorandum is recorded in the chattel mortgage book with a reference to the volume and page of the real estate mortgage record. A release recorded on the real estate records also operates as a release of the chattel mortgage unless the contrary is expressed. (Sec. 8563, Laws of Ohio 1943-44.)

Chattel mortgages on household furniture must be executed by a husband and wife.

8565-1.

Unless household goods are mortgaged to secure the purchase price there can be no foreclosure except in a court of record. Possession cannot be taken before foreclosure. This provision, however, does not apply to the sale of furniture and

other household goods by dealers.

8566-8567.

Chattel mortgages on stock in trade are considered as a general rule void, as against third persons. However if the mortgagee takes possession before other claimants assert their rights against the property, either by consent of mortgagor or by power of sale in the mortgage his right is paramount except as to any surplus that may remain after satisfying the debt.

54 O. S. 307, 43 N. E. 1045.

A stipulation in the mortgage by which the mortgagor is to pay over money received from the sales, to the mortgagee, and a performance of this condition may make the mortgage valid against third persons.

The powers of a mortgagee are broad in Ohio. He is considered the legal owner after default and he may take possession peaceably or use replevin as his remedy for possession. Many Ohio mortgages provide merely for repossession upon default but powers of sale are common, and sale must be had in accordance with the terms. The mortgagee must conduct the sale properly and get the best price obtainable.

Foreclosure proceedings may also be brought in equity and this is advisable if creditors' claims seem vexatious.

**OKLAHOMA:** To be valid against third persons a chattel mortgage (or certified copy) must be filed in the office of the County Clerk of each county where the property is situated. It must be acknowledged or witnessed by 2 witnesses. Assignment (or certified copy) may be filed where the mortgage is filed. Mortgage must be refiled if the property is removed to another county.

Discharge is effected by entry in the margin or by presentation of receipt or acknowledgement of satisfaction in writing signed by mortgagee.

See 46-51, Oklahoma Statutes, 1941 for a form of chattel mortgage.

The mortgagee's remedy is set forth in the statute. When a default has occurred the mortgagee gives notice to the mortgagor and by posting in 3 public places at least 10 days before sale. Sec. 53 provides the contents of the notice. The mortgagee may be a purchaser.

The duration of the lien is 3 years but it may be renewed within 30 days before expiration for additional 3-year periods by mortgagee filing affidavit showing status.

See 46-51 to 75.

Leases, options to purchase personal property used in digging, drilling, completing gas or oil wells (or their copies), must be filed in the office of the county clerk where the property is located, to be valid against third persons.

60-319.

If a chattel mortgage on stock in trade provides for mortgagor accounting for proceeds as sales and performs this condition, it is probably valid. Such mortgage should be drawn by local counsel. Such chattel mortgage is subject to the Bulk Sales Law.

**OREGON:** A chattel mortgage alone, or with a real property mortgage, to be valid against third persons, must be acknowledged or proved by subscribing witness and filed or recorded in the office of the recorder of conveyances in the county where the property is located and any other counties which the mortgagee may elect.

Discharge is effected by indorsing on the original instrument if filed, or on margin of record if recorded, attested by county clerk or recorder; or by presentation of statement acknowledged by mortgagee that the mortgage has been satisfied.

After the mortgage is filed or recorded in any county a certified copy may also be filed with the secretary of state and this will constitute a lien wherever the property may be found in the state. Mortgages on migratory chattels are also filed with the secretary of state.

In case of removal of the property to another county the mortgage must be recorded in the new county within 20 days.

Duration of the lien is 3 years but it may be renewed for successive 3-year periods by mortgagee filing affidavit as to status prior to the expiration of the period.

The mortgagee is entitled to immediate possession peaceably (or replevin) on breach of condition, and sell the property and apply proceeds in payment of the debt. However the courts will enforce the actual terms of the mortgage. But the mortgagee must proceed with sale with reasonable promptness.

If the mortgage does not provide the remedy and the consideration is not more than \$500 the sheriff may sell; if over \$500 foreclosure must be by suit in equity in the circuit court.

See 68-201 to 213, Oregon Compiled Laws Anno. 1940 and same sections in Annual Pocket Parts 1943 and 1944-45.

Chattel mortgages on fixtures are considered valid and on stock in trade as valid where the mortgagor is required to account to the mortgagee for proceeds of sales. Otherwise it is valid only if the mortgagee takes possession before the rights of third parties accrue.

106 Ore. 382.

5 Ore. Law Review 249.

**PENNSYLVANIA:** This state has been slow to tolerate chattel mortgages (limiting them only to a small list of specified articles) but by very recent legislation (940.1 to .16 of Title 16, 1945 Special Law Pamphlet No. 2) it has broadened the scope of mortgages to include any kind of personal property. To be good against subsequent purchasers, subsequent mortgagees, lienors encumbrancers, or those subsequently acquiring an interest in the property, the mortgage must be witnessed and acknowledged and filed.

It must be filed in the office of the Prothonotary in the county where the chattels are located.

Duration of the lien is 5 years but it may be renewed for successive five-year periods by filing affidavit as to the status.

Without judicial interpretation it is difficult to say whether mortgages on stock in trade are valid but at least by implication (referring to subsequently acquired chattels) they may be considered so. A chattel mortgage may secure future advances not to exceed the amount stated in the mortgage.

Cancellation is effected by satisfaction noted by the mortgagee on the margin of the index attested by prothonotary, or by a satisfaction in writing filed.

Assignment of mortgage may be recorded on the margin of the page where the mortgage is docketed by presentation to the prothonotary.

The mortgagee may foreclose with or without process of law. He may take possession upon default, sell the property at public or private sale after giving 10 days' notice to the mortgagor. Any surplus after the debt and costs, is to be paid over to the mortgagor; however the mortgagee is entitled to a deficiency judgment if the proceeds are insufficient.

Sellers in Pennsylvania should bear in mind however, that the more common and popular method of securing sales is by the bailment lease, which if it can be maintained as a pure lease does not need to be recorded. This form of security will be discussed in a later article. Conditional sales are perhaps the best type of security in this state when it covers fixtures. Sellers in this state should also keep in mind the favorable lien given to landlords and obtain waivers from the landlord.

**RHODE ISLAND:** To be valid against third persons a chattel mortgage must be recorded in the records of personal property mortgages with the town or city clerk (in Providence, recorder of deeds) where the mortgagor resides; if he is a non-resident where the property is located. It must be recorded within 5 days of the signing.

A mortgage of both real and personal property is to be recorded with real estate records and the recorder enters a reference to it in the index of the chattel mortgages.

A mortgagor may redeem within 60 days from the time of condition broken unless the property has been sold in pursuance to the contract between the parties.

Discharge is effected on the mortgage or on the record, signed by the mortgagee.

The mortgagee may foreclose by sale under a power of sale and he may be a purchaser. He may also foreclose by a bill in equity.

Mortgages on stock in trade may not be safe against third parties unless possession is taken. It is best to obtain local legal advice.

See Ch. 442, Secs. 1-19 General Laws of R. I. 1938.

**SOUTH CAROLINA:** To be good against third persons a chattel mortgage must be proved by affidavit of a subscribing witness and filed for record with the Register of Mesne Conveyances of the county where the mortgagor resides or if he is a non-resident in the county where the goods are located. In some counties



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where the office of Mesne Conveyances has been abolished the mortgage is filed with the Clerk of Court.

Mortgages for less than \$100 may be merely indexed with principal memoranda entered.

Mortgages may cover both real and personal property and in such case they are to be recorded as real estate mortgages but indexed in both real estate and chattel records.

See S. C. Code of Laws 1942, Sec. 3635.

Duration of the lien is 3 years but it may be renewed for additional 3-year periods by mortgagee filing signed statement as to status.

Secs. 8876-8877.

Cancellation is effected by mortgagee writing words of discharge on mortgage in presence of the recorder; or by a writing witnessed by 1 or more witnesses; or by separate instrument in presence of 2 witnesses if original is lost; or by court order.

Sec. 8702. See Sec. 8724 for satisfaction of record in Oconee County.

The mortgagee may foreclose by posting notice of sale in 3 public places at least 15 days before the sale. The mortgagor may redeem any time before the sale.

Secs. 8715 to 8718.

Chattel mortgages on stock in trade undoubtedly valid if the mortgage empowers the mortgagor to sell and provided there is no fraud.

**SOUTH DAKOTA:** To be valid against third persons a chattel mortgage must be executed in the presence of 2 witnesses who must sign as witnesses, or be acknowledged and filed with the register of deeds of the county where the property is situated. The mortgagee must give the mortgagor a copy of the mortgage and the mortgagor must give a receipt for it which must be filed with the mortgage.

Duration of the lien is 6 years.

A corporation may mortgage both real and personal property and after-acquired property if provided for in the mortgage, if the mortgage is filed with the register of deeds in the county where it has its principal place of business and in the county where the property is situated. Such instruments are indexed in both the real estate mortgage record and the chattel mortgage record.

Cancellation is effected by presentation to the recorder of acknowledgement of satisfaction, acknowledged or witnessed by 2 witnesses.

For form of chattel mortgage see Sec. 39.0401 of So. Dakota Code, 1939.

For whole statute see 39.0401 to .0415.

A mortgage on stock in trade is valid if the mortgagee empowers the mortgagor to sell and apply the proceeds to the indebtedness and for purchase of replacements.

24 S. D. 203.

The Bulk Sales Law is applicable however.

The mortgagee's remedy is foreclosure

by sale upon proper notice, or by action in court.

See Secs. 37.3501 to 3509.

**TENNESSEE:** To be valid against third persons a chattel mortgage must be acknowledged or proved by 2 subscribing witnesses, and registered in the Register's office in the county where the mortgagor resides and in case of his nonresidence, where the property is.

Secs. 7192, 7621, 7626 and 7630, Michie's Tenn. Code, 1938.

Cancellation is effected by acknowledgement of satisfaction and entry made on margin. The note must be exhibited to the register.

The statutes are silent as to the duration of the lien.

A mortgage on stock in trade which the mortgagor sells and replaces is not valid in this state but fixtures on the store of a merchant may be mortgage l.

The mortgagee may foreclose according to the terms of a power of sale or by proceeding in equity.

**TEXAS:** A chattel mortgage is void against third persons unless it (or a true copy) is filed in the office of the county clerk of the county where the mortgagor resides; but if he is a non-resident, where the property is situated.

It must be witnessed by 2 subscribing witnesses or acknowledged or proved by a subscribing witness. The clerk must carefully compare a copy with the original.

Satisfaction is effected by an instrument acknowledging payment, being recorded. The mortgagor may receive back the original mortgage.

Duration of the lien is 6 years unless within 3 months of expiration the mortgagee files an affidavit as to the status and that the debt is not yet paid.

Vernon's Texas Statutes 1936.

Articles 5489-5499.

A mortgage on moving stock in trade where the mortgagor sells in regular course is not valid in this state.

19 Tex. Civ. 672.

Mortgagee's remedy lies in bringing an action of foreclosure in court, reducing the debt to judgment and having sale as under an execution, also obtaining deficiency judgment if the sale proceeds are insufficient.

**UTAH:** To be valid against third persons a chattel mortgage must be witnessed by at least 1 person, and it must state that possession is to remain with the mortgagor (if such is the case), and it (or copy certified by a notary) must be filed in the office of the recorder of the county where the mortgagor resides, or if he is a non-resident, where the property is situated.

Ch. 18, Laws of Utah, 1945.

The previous statute as to duration of lien was repealed in 1945.

Discharge is effected by an entry by the mortgagee on the margin of the index attested by the recorder, or by presentation of an order acknowledged.

A mortgage on a stock in trade is considered good where there is no fraud.

The mortgagee may foreclose under a

power of sale according to its terms and conditions and by advertisement; or he may proceed in equity.

Utah Code, 1943, 13-0-4 to 0-16.

**VERMONT:** To be valid against third persons a chattel mortgage must be recorded in the office of the clerk of the town in which the mortgagor resides, or if he is a non-resident where the property is situated.

The mortgagee may take possession at any time for the necessary care and preservation of the property.

Both mortgagor and mortgagee must execute and append to the mortgage an affidavit to the effect that the mortgage is made to secure the debt specified in the conditions, and for no other purpose and that it is a just debt.

If the mortgage is given to indemnify the mortgagee such condition must be stated in the mortgage and the affidavit must be varied to fit the circumstances.

Discharge must be entered of record within 30 days after payment.

Real estate and chattel mortgages may be combined and recorded as real estate mortgages but indexed in the chattel mortgages as well.

The recording is good for the life of the mortgage.

The mortgagee may foreclose after 30 days of default by selling the property at public auction on at least 10 days' notice posted in 2 or more public places and also to the mortgagor. He may redeem up to the time of sale.

An officer makes the sale and within 30 days makes a report of the sale to the town clerk to be recorded.

If no sale is made within 60 days after possession the taking of the property is deemed to be in full satisfaction of the debt.

The mortgagee may also foreclose by bill in chancery.

Vermont Public Laws 1933, Secs. 2659-2682, also Laws of Vt. 1941, Sec. 2679.

A mortgage on stock in trade is valid when the proceeds of sales are used to apply to debt or replacement of stock after possession by mortgagee. Bulk Sales law is applicable.

**VIRGINIA:** To be good against purchasers, lien creditors, a chattel mortgage must be acknowledged or proved by 2 witnesses, and recorded with the Clerk of Circuit court of the county where the property is located (but if in city, with Clerk of Corporation Court).

The recording is good for 20 years after maturity, or after Jan. 1, 1946, if there is no date of maturity, 20 years from date of mortgage. The period may be extended, however, by endorsement on margin prior to expiration.

A mortgage on stock in trade not good against third persons if the mortgagor sells from the stock in the usual course of business.

Cancellation is effected by entry of payment on margin of the book, by presentation of the note by the mortgagor, or an affidavit of the mortgagee. A duly executed release, and a court order re-

corded with the clerk will also effect discharge of record.

If the mortgagee repossesses without legal process it shall fully discharge the indebtedness. But a mortgagee may sell under a power of sale upon proper notice. Otherwise the mortgagee may proceed before a Justice of the Peace, or higher courts, according to the amount involved.

Michie's Virginia Code, 1942, Secs. 3393, 5189-5191a.

**WASHINGTON:** A chattel mortgage to be good against subsequent purchasers, pledgees, mortgagees, and encumbrancers, must be acknowledged and filed within 10 days from the time of execution in the office of the County Auditor of the county where the property is situated. It must also be accompanied by an affidavit of the mortgagor that it is made in good faith, without design to hinder, delay or defraud creditors.

After such filing a true copy certified by the Auditor may be filed with the secretary of state and it will have the effect of being filed in every country.

If the property is removed to another county it must be filed in the new county within 30 days or filed in the office of secretary of state or custom house, or the mortgagee may take possession.

Satisfaction is effected when the mortgagee gives the mortgagor a certificate in writing acknowledged with the Auditor's file number and the secretary of state's file number, and such writing is recorded.

Laws of Wash. 1943, Ch. 284.

Duration continues till maturity of mortgage unless within 2 years after, the mortgagee files an affidavit as to status.

A chattel mortgage on fixtures must also be indexed in the Auditor's office where the real estate is located.

Laws of Wash. 1943, Ch. 76.

A chattel mortgage on stock in trade is considered good if the mortgage provides for application of proceeds of sales to reduction of the debt and such reduction is made.

The mortgagee may foreclose by notice and sale or by action in superior court where the property is situated.

Remington's Revised Statutes Anno. Sec. 1104.

**WEST VIRGINIA:** A chattel mortgage to be valid against third persons must be recorded in the county where the property is situated. The recording office is the County Clerk's office.

W. Va. Code, 1943, Sec. 3993.

It must be acknowledged or proved by 2 witnesses. The mortgage must set forth who is the beneficial owner of the debt. But if the mortgage secures a series of more than 5 notes payable to bearer the mortgage should show the names and addresses with or by whom the notes have been or are to be negotiated.

A mortgage on stock in trade is not considered good where the mortgagor retains possession.

Cancellation is effected by statement in writing acknowledged and filed.

The mortgagee may proceed to sale

under the terms of power of sale but may also foreclose in equity.

**WISCONSIN:** To be good against third persons a chattel mortgage must be filed with the Register of Deeds where the property is situated; if cities and towns are possibly located in more than one county, it should be filed in both or all counties.

Duration of the lien is 3 years but it may be extended for successive periods of 1 year by mortgagee filing within 30 days of expiration an affidavit as to the status.

The mortgagee may foreclose by private or public sale and give notice according to

the statute. If he expects to get a deficiency judgment the notice must so state. The mortgagor may redeem up to 5 days after the sale.

Cancellation effected of record by mortgagee giving a release; mortgagor must file within 10 days after receipt. The release must state the date of mortgage, filing date and document number.

A mortgage on stock in trade is valid but statute requires that the mortgagor must file in the office of Register of Deeds, statements of sales and purchases and payments on mortgage debt, every 4 months. The mortgage must however

(Continued on page 48)

## Highlights

### IN INSURANCE HISTORY

#### The Thames on Fire

The great Tooley Street Fire in London June 6th, 1861, was the second most destructive fire the city had ever known. In the great fire of 1666 there had been no fire insurance associations to suffer, but in this one a loss of nearly £2,000,000 was largely covered by insurance. The buildings in which the fire started, and others adjoining, were ranked among the best risks of their class and thought to be in a large degree fire resistive. But they could not stand up to the enormous heat caused by the combustible merchandise they held. Large quantities of tallow stored in the buildings' basements melted and ran blazing into the Thames, greatly endangering the shipping. Weeks passed before the fire was finally extinguished, and the Chief of the London Fire Establishment lost his life in it. As a result of this fire the rates for mercantile insurance were put up on the "panic" principles, and requirements were made regarding the classification and storage of merchandise and the structural condition of the buildings.

*Many of our most respected fire regulations came about because of some preventable catastrophe. The NATIONAL UNION and BIRMINGHAM have long been advocates of protective measures designed to save lives and needless property waste.*

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# OBSOLESCENCE, A BUSINESS DISEASE

## *Holding to Old Methods and Machines Dangerous*



Obsolescence must always be paid for. Some pay for it by doing business at a loss. Some build up an obsolescence fund.

Others keep replacing the old with the new so constantly they do not have to worry too much about obsolescence rates and, also, are able to take full depreciation when making out tax returns. These business men, as a rule, appear to be making the most profit. At least, they can figure their total cost of doing business more accurately than can those who follow either of the other two practices. Granting that obsolescence is a business cost which cannot be avoided and that the manner in which a business man meets that cost has a direct bearing upon the extent credit can be granted him with safety, it is well to consider what can be expected in the way of obsolescence in the future.

Even the most casual survey of the present situation indicates a much higher rate of obsolescence than ever has been experienced in the past. Industrial research has been intensified during the past quarter century. From 1930 on until the war, however, there was so general acceptance of the theory that a mature economy had been reached that the information revealed through research was not always given practical application as quickly as would have been the case had thinking been normal.

During the war not only was there a great increase in research as it applied to the winning of the war but there was quick application. In an address delivered at the annual banquet during the annual meeting in New York, November 26-29, 1945, of The American Society of Mechanical Engineers, Lieut. Gen. Ira C. Eaker, Deputy

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by **J. E. BULLARD**

*Special Writer on Business Problems*

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Commander, Army Air Forces, had the following to say:

"During the war, I think it is fair to say that the overseas commanders asked for the impossible from industry and frequently got it. We were not merely content to send back a stream of change orders to the United States. The Air Force personnel overseas and those at home wanted a complete new line of aircraft."

### **Obsolescence in Air Field**

He mentioned as one of the most brilliant engineering and manufacturing achievements of our times, the development and introduction into combat of the B-29. He pointed out that the sudden cessation of hostilities barred the entry of newer ships into combat. Among these were the Lockheed P-80A, the "shooting star," the Consolidated Vultee ZP-81, the North American P-82 and others. The point is that within a period of a few years new planes were not only designed but manufactured and placed in combat which were so much superior to previous ones as to make those only a few years old, obsolete. The same sort of progress was being made in every field in which it would help us win the war and win it quicker. Of course, the most spectacular of all was the research work done, followed by the manufacture and use of the atomic bomb. That particular research promises to bring about changes in a great many different

industries because so many problems, on which work already had been done and which had to be solved to produce the bomb, were solved through the intensive research work. A number of different scientists, who were connected with that research, expect there will be successful application of fission energy to the generating of electricity within ten years. This could mean that not only all our present steam generating plants but hydro-electric plants as well will be obsolete in twenty years or less. It might happen that the cost per kilowatt hour of fission energy generated electric current will be less than the cost of hydro-electric power generated at the most economical developments.

The obsolescence rate is going up more rapidly than it ever has before because progress takes place at a faster and faster pace. In his book, "Number, The Language of Science," Tobias Dantzig, Ph.D., states that it required some 400 years of struggle between the Abacists who insisted on retaining the old and the Algorists who advocated reform to gain the adoption of the Arabic numerals including the symbol zero to anything like a universal degree in Europe. In commenting on this contest which lasted from the eleventh to the fifteenth century, the author had the following to say regarding the importance of the final victory.

"Conceived in all probability as the symbol for an empty column on a counting board, the Indian sunya was destined to become the turning-point in a development without which the progress of modern science, industry or commerce is inconceivable. And the influence of this great discovery was

by no means confined to arithmetic. By paving the way to a generalized number concept it played just as fundamental a role in practically every branch of mathematics. In the history of culture the discovery of zero will always stand out as one of the greatest single achievements of the human race."

### Pioneer Developments Slow

If we accept the conclusion this discovery was so important, it follows that progress was extremely slow eight centuries ago. It gained speed but continued to be slow. James Watt received his first patent on the steam engine in 1769 but before the engines could be manufactured new and improved machine tools had to be designed and built. Not until nearly forty years later was the steam engine used successfully to propel a ship and it was sixty years after that first patent before a locomotive which proved practical for hauling passenger and freight trains was built. Yet, within thirty years after Parsons received his first patent on the steam turbine, the reciprocating engine was already being displaced in large power plants.

The first practical four cycle internal combustion engine was built in 1876 and two decades later it was being used to power automobiles. Marconi discovered wireless telegraphy in 1896 and during the half century which has elapsed since the entire electronic industry has come into existence, among its accomplishments being radio, television, radar, the blind landing of airplanes and airway radio beam stations. It required some four centuries to bring about the adoption of the discovery which made modern mathematics possible but only half a century to develop the vast new electronic industry.

The constantly accelerating speed of progress which has taken place during the past centuries points to a still greater acceleration in the future. Progress in any one field of endeavor leads to progress in others. It was the development and use of automatic machine tools in the automobile and other industries which made possible the great advance in airplane manufacture which took place during the war. The atomic bomb research, accord-

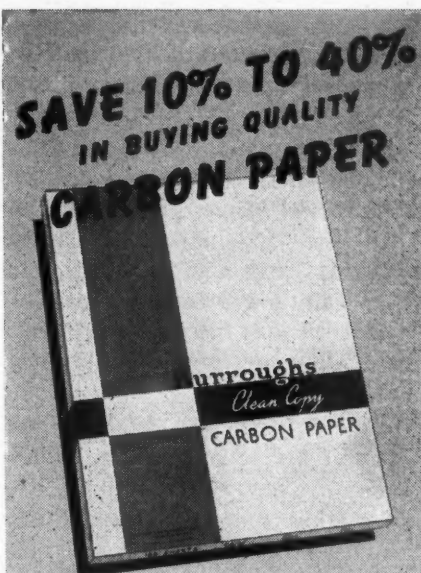
ing to The M. W. Kellogg Company, has made available to industry more than 5000 new products and procedures affecting all phases of American life.

It is such facts as these which promise to make obsolescence so much more important as a business cost than it ever has been before. This nation is well equipped to speed up the application of all new knowledge gained through war research and also what was gained but not applied between 1930 and the start of the war. To make the country prosperous, in fact, there must be a speeding up of progress.

Discovering a business office which was equipped with all the machines needed to make it as efficient as possible and the right machines has not been an easy task in the past. The typewriter and the adding machine in a small office, that is if both were to be found there, might be between ten and twenty years old, even though improvements had been made on such machines to such a degree as to make these old ones obsolete. Antiquated bookkeeping systems continued to be used though the purchase and the use of one or two new machines and, perhaps, some new equipment would have modernized it. What modernizing could do is illustrated by the statement of a small merchant. He said that when he was using the old hand system of bookkeeping it always was a problem to get bills out on time. It might not be till the fourth of the month before all the bills were mailed. Collections were getting to be poorer and poorer. Then he bought a little bookkeeping machine and changed his system. After that, he said, all bills were mailed on the last day of the month and the improvement in collections would have paid for the machine eventually, even if no labor had been saved.

### Research in Office Equipment

This state of affairs has been recognized by the National Office Management Association which has a committee working on research activities with the possibility that arrangements may be made to turn over special problems to a research organization for study and solution.



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There is no phase of business which is being neglected these days. Each is almost certain to benefit from past, present and future research.

All this means rapid obsolescence of machines, equipment, etc. The new should increase net profits but it has to be bought and used in order to do so. Clinging to the old, inefficient and obsolete, regardless of what it may be, results in higher costs and may lead to bankruptcy. On the other hand a mania for the new may prove just as disastrous.

Three young men started a new garage. They wanted it to be thoroughly modern so they not only bought every machine, tool and the equipment which could be used in the garage they were equipping, but also some suited only to airplane engines. It should have been obvious to these men that some of the things they bought would not be used enough to show a profit. At any rate, they had the best equipped garage in the city. It was only a matter of a few years, however, before they found themselves in financial difficulties. Their overhead was far too high for the volume of business they were able to get.

There will be a temptation on the part of a great many of those who start new enterprises to make the same error. In the effort to be completely modern they will build up too high an overhead provided they can obtain enough capital, credit or both. One of the things which saved the man who bought that store some thirty years ago was the fact that his capital was decidedly limited and he was not able to obtain any great amount of credit. He had to do most of his modernizing out of earnings. He had to progress somewhat slowly and consequently safely. Had he started with as much financial backing as some of his predecessors did, the chances are he never would have been as successful as he proved to be. With him obsolescence was truly a business cost. Never did he have so much invested in that which was new that he experienced any difficulty in replacing it with that which was still newer as soon as there was

something newer and better to be obtained.

### Changes Must Pay

Today, there are many business concerns which are clinging to methods, policies, systems, machines, equipment, etc., which are obsolete. Today, also, there are those starting in business who are so anxious to be thoroughly modern they have lost the proper perspective. Because something is new and modern, better than what has been used in the past they want it and they do not give sufficient consideration to whether or not it will prove profitable in their business. Both types need really intelligent guidance if they are to avoid serious financial trouble in the not too distant future.

In contrast to those men who spent so much money in the effort to have every tool and every piece of equipment in their garage which could be bought is a man who bought a few automatic screw machines and went out looking for business to keep them busy. He installed no other machines and made it a practice, in so far as the business he secured allowed, to keep every machine operating twenty-four hours a day, five days a week. The sixth day was devoted to what maintenance work might be needed. This man not only made money, he was able to get more business than, otherwise, might have been possible because his costs per unit of production were so low he could quote lower prices than most of his competitors. Perhaps the most important fact, however, is that his obsolescence costs per unit of production, also, were low. When there was a better automatic screw machine available than any he had in operation he did not need to hesitate, on account of the cost, in buying and installing it.

Obsolescence is increasing at an ever accelerating rate not only in the case of machines, equipment, etc., which can be classed as capital goods, but also in the case of merchandise. A man who had been in the wholesale apparel business for a great many years stated in the 1920s that when he was a young fellow his firm never had to worry much about dead stock, that is the

obsolescence of the goods it handled. Large orders were placed in the spring and the fall. The new goods were sold the first year in the larger cities, the next year in smaller cities and if any were still left they were sold the third year in the villages. After 1920, he said, his firm was placing orders almost continuously and did not carry in stock larger quantities than some of the larger retail stores once did. He explained that it might take but a few months for any given item to become obsolete. The people in the little villages, he went on to explain, were just as insistent upon buying the very latest as were those living in the great metropolitan centers. The radio, the automobile, national magazines and other progress in transportation and communication enabled the country people to be just as up-to-date as those of the largest cities. The point in his experience is that progress in one field of endeavor affects in one way or another a great many other fields. In this case it was the advances made in communication and transportation which speeded up the obsolescence rate of apparel merchandise.

### The Auto Self-Starter

In the mechanical field we have the case of the cash register making the money drawer or till obsolete. Then when it became desirable to operate cash registers electrically, a new type of motor had to be developed to open the drawer and drive other mechanism. The research which was conducted to accomplish this was carried still further and the self starter for the automobile became a fact. This, at one stroke, made all previous cars obsolete.

Not only has there been an increasing amount of industrial research during the past twenty-five years but out of the war has come a new interest in it. Problems on which work has been done but which have not yet been solved are going to require still more investigating and experimenting. As a result, great new laboratories are being built and the number of people em-

ployed in them is being increased.

All this is affecting all departments of every kind of business and industry. New products and materials are being placed on the market. Old products are being redesigned and in the coming years will be improved and changed in appearance to such a degree as to make the present ones obsolete. This means the retailers must buy with greater care than they ever have in the past and must increase their rates of turnover. It means that due regard must be given to all capital investments, that any machines, equipment, etc., which is bought is really needed and that the chances are such things will be obsolete within a short time.

This, of course, is a problem which applies as much to the established business as to the one which is just being started. Because of the difficulty in getting anything new during the war, in the way of machines, equipment, etc., business concerns find themselves burdened with much which is obsolete. They will have to replace much which they have now. What they buy new, however, will not remain modern anything like as long as that did which they replaced. It will have to earn them more money in a shorter time.

The present situation, therefore, calls for more complete and more accurate records of machines, equipment, etc., than have been kept in the past by the average business concern. In the early days, motor trucking presented many problems. It was not any too easy to make a truck pay for itself and in a few years it was out of date. How the situation was met in some cases is illustrated by the practice of one trucking company. The manager stated that each year new trucks were bought. They were used for the sort of trucking at which they earned the most money for the company usually for the longer distances where their higher speeds meant faster and better service.

Records were kept of each truck showing what it costs to operate, what it earned, etc. As the result of records and an analysis of the information they gave, truck use was carefully scheduled. It was learned, for example, that an ob-

solete truck which would be a liability for most trucking purposes could be used for pick up of goods which had to be brought to the company's headquarters where they were sorted as to destinations and made up into truck loads. Delays caused by traffic congestion, frequent stops and other slow downs made it possible for the old trucks to do virtually as good a job as new ones could under the conditions. The age of the oldest trucks, however, was never as great as was the case with some other truck users. They were the trucks which were traded-in each year toward the purchase of new ones. In this manner the degree of obsolescence of the fleet was maintained at a point where the greatest profit to the company resulted.

Actually, this practice was virtually the same as that of the neighborhood store owner mentioned at the beginning of this article. The main difference is that whereas the store owner did not keep accurate records of every machine, display case, etc., but depended upon his judgment and his ability to buy what was new, the trucking company depended upon records. It was also more practical for the trucking company to determine the earnings of each truck than it is in a store to determine the earnings of anything new which is put into use. One can, however, always keep a record of the obsolescence cost of each thing bought and such a record usually shows that this cost is lower if each thing is replaced before it has lost too much of its original value. In other words, where there is a high rate of turnover of the machines, equipment, etc., used in a given business, the total cost of obsolescence tends to be lower than it is where the rate of turnover is much slower. In addition, where the turnover is high the place of business always is modern and that may reduce some of the costs as well as attract business which would not be attracted to an out of date place of business.

#### **Costs Must Be Cut**

One reason why every kind of business must depend more and more in the future on machines and

equipment which will save labor is the fact that wages and salaries are going up. The trend has been upward now for at least a half century. At the same time the work week is being shortened. More has to be accomplished in an hour if there are to be any net profits. As the cost of labor goes up, the demand for those machines and that equipment which will save labor increases. Today, that demand can be met more effectively than ever before. It even is possible to design machines to do work which, in the past, it has been considered required thinking. An example is a machine which performs intricate mathematical calculations.

It can be taken for granted, therefore, that those who make the greatest business successes in the future are going to be those who select and use the machines and equipment which will prove most profitable to them and who keep their obsolescence costs at the minimum by replacing new often enough. To a considerable degree this is a new business problem due primarily to the rapid progress which can be expected in the future together with rising wages and shorter work weeks.

### ***Petroleum Division of NACM Meets in Chicago Feb. 11-13***

The annual meeting of the Petroleum Division of the National Association of Credit Men was held February 11, 12 and 13 in the Congress Hotel, Chicago. More than 100 credit executives of the petroleum industry from all parts of the United States attended the sessions. The annual dinner was held Monday night. Among the speakers were Walter E. Hoadley, Jr., industrial economist of the Federal Reserve Bank of Chicago, who spoke on "General Business Conditions."

D. A. Grant, division credit manager of the Socony-Vacuum Oil Company and chairman of the Board of Governors of the Petroleum Division of the National Association of Credit Men and a member of the Board of Directors of The Chicago Association of Credit Men, presided at the opening session. The Petroleum Group of the Chicago Association of Credit Men dispensed with their regular February meeting and attended the annual dinner of the Petroleum Division and other sessions of the annual meeting.

# LATIN-AMERICAN CREDIT STILL "TOPS"

## 35th Semi-Annual Survey of Credits and Collections

**ONE** All Latin-American markets achieved top rank in the Collection classification of "Prompt," and with the single exception of Bolivia, every Latin-American market was given the high rating of "Good" in the Credit classification, in this 35th Semi-annual Survey of Commercial Credit and Collection Conditions in Latin-America covering the last half of 1945. In the majority of countries under survey, credit and collection indices have now risen steadily for five and one-half years, according to the judgment of United States manufacturers and exporters whose contributions to these surveys represent their actual credit and collection experiences in the markets covered. No markets were rated in the lower Credit classifications of "Fair" or "Poor," even Bolivia being classified as "Fairly Good" from the credit viewpoint.

In the comparison of Terms granted during 1945 with those extended during the year 1944, little change was evident. In seven countries 100% of the members reporting indicated no change whatever in their terms. Those countries are Bolivia, British Possessions, El Salvador, Haiti, Honduras, Netherlands Possessions and Paraguay. This "no change" average fell below 90% in only three countries—Cuba 85%, Peru 84% and Venezuela 83%. In all other markets, well over 90% of the members reporting indicated unchanged credit accommodations. Greatest changes in liberalization of Terms was recorded in Cuba and Puerto Rico, in both of which markets 10% of the members stated they had liberalized their Terms. Eight percent reported similar liberalization in Peru and 7% liberalized in

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by **PHILIP J. GRAY**

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Panama and Venezuela, while between 2% and 4% of the members reported liberalizing terms to Argentina, Brazil and the Dominican Republic. Largest reduction in terms was recorded in Venezuela where 10% of the members reduced terms during 1945. Eight percent reported terms reductions in Peru, 7% in Colombia and Nicaragua, 6% in Ecuador and 5% in Cuba and Uruguay. Only 2% to 4% of the members reported reduction in terms to Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Guatemala and Mexico. These terms percentages should be viewed against the 90% record for "unchanged terms" established by the members of this bureau throughout their wartime trade with all Latin-American markets.

Improvement in business with all Latin-American markets was recorded in the Export Volume Survey for the year 1945 as compared with 1944. Highest improvement was recorded in Argentina with 196% of the previous year's business, closely followed by Paraguay with 180%, Uruguay 176%, Mexico 164%. Lowest volume for the year was recorded in Peru, but even here business during 1945 was reported as 102% of that done in 1944. Volume of business with British Possessions and Haiti was recorded at 104% and in Ecuador and Nicaragua as 106%. It must be emphasized again that this Volume Survey covered wartime trade and does not reflect in any way a comparison with Volumes attained pre-

war. Wide divergence was again evident in the reports—some members experiencing considerable reduction in trade with markets in which other members enjoyed extraordinary increases in volume. It must also be reported that fully one-quarter of the members contributing to other features of the Survey failed to submit Export Volume percentages, many of them stating that "such 1945 sales data were not available at this time." Inclusion of those figures might very well alter the present Export Volume percentages considerably.

Once again Cuba leads all markets in the top Credit classification of "Good," closely followed by Argentina, Netherlands Possessions, Puerto Rico, Colombia, Dominican Republic, Guatemala, British Possessions and Brazil. Paraguay, Ecuador and Nicaragua were the low members in this classification, Nicaragua gaining inclusion by a single point. Bolivia lost 20 points since the July survey and dropped from the top credit classification to the second rating of "Fairly Good" which it occupied a year ago. In this present Survey, seven markets showed improvement from a credit standpoint, 15 declined, while one, the Netherlands Possessions showed no change in credit status. No countries were rated "Fair" and none was rated "Poor."

Top rank in the Collection classification was shared by Brazil, Cuba, Haiti, Netherlands Possessions, Peru, Puerto Rico, Argentina, Honduras, El Salvador and Uruguay, all of which attained the top rating of 100%. Ecuador, Nicaragua, Paraguay and Bolivia which were classified as "Fairly Prompt" in the July 1945 Survey, this time improved their Collection rating sufficiently to gain inclusion in the

"Prompt" classification. Eight markets recorded an improvement in their Collection status, another eight declined, while in seven countries Collection ratings remained unchanged. No markets were rated as "Fairly Prompt," "Slow" or "Very Slow."

The 183 American manufacturers and exporters contributing to this survey are located in all parts of the United States. They represent a veritable cross-section of American products, the majority of them reporting on all the markets included in this survey. In compiling this survey, no consideration is given to the question of Governmental debts or service obligations, and the classification of "Credit Conditions" refers to the situation within the various Latin-American markets from the commercial point of view only, as judged by American manufacturers and exporters. Comments made by those replying to the survey under the general heading "Collection Conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers and exporters having commercial collection items in the markets surveyed. The "Terms" feature of the survey simply reports whether members' terms during 1945 to Latin-American buyers were "Unchanged" or had been "Reduced" or "Increased" over those granted during 1944, and the replies have been listed country-by-country in a percentage figure. The "Export Volume" survey requested a percentage figure comparing the value of 1945 exports with those of 1944. This country-by-country Volume report is included.

#### CREDIT CONDITIONS

In so far as the present semi-annual survey is concerned, which covers Credit Conditions prevailing in the last six months of 1945, the members of the Foreign Credit Interchange Bureau rate all Latin-American Markets, except Bolivia, as "Good." No rating was given the French Possessions in view of the fact that transactions there have been until just recently on a cash basis through officially licensed sources. A comparison of Credit and Collection Index figures by

### Survey of Terms Granted During 1945 as Compared with 1944 Terms

(In percentages of replies received)

	No Change %	More Liberal %	Less Liberal %	1945 Export Volumes Compared With Year 1944* %
Argentina.....	96	2	2	196
Bolivia.....	100	..	..	134
Brazil.....	94	3	3	110
British Possessions.....	100	..	..	104
Chile.....	96	..	4	124
Colombia.....	90	3	7	118
Costa Rica.....	96	..	4	110
Cuba.....	85	10	5	145
Dominican Republic.....	92	4	4	121
Ecuador.....	94	..	6	106
French Possessions.....	Not Rated	Not Rated	Not Rated	125
Guatemala.....	97	..	3	154
Haiti.....	100	..	..	104
Honduras.....	100	..	..	155
Mexico.....	96	..	4	164
Netherlands Possessions.....	100	..	..	132
Nicaragua.....	93	..	7	106
Panama.....	93	7	..	120
Paraguay.....	100	..	..	180
Peru.....	84	8	8	102
Puerto Rico.....	90	10	..	145
El Salvador.....	100	..	..	111
Uruguay.....	95	..	5	176
Venezuela.....	83	7	10	121

\* Average percentages of all reports received.

### Current Survey of Collections (January, 1946)

(In percentages of replies received)

	Prompt	Fairly Prompt	Slow	Very Slow
Argentina.....	70	30	..	..
Bolivia.....	38	50	12	..
Brazil.....	64	36	..	..
British Possessions.....	76	20	4	..
Chile.....	74	22	4	..
Colombia.....	54	43	3	..
Costa Rica.....	61	36	3	..
Cuba.....	75	25	..	..
Dominican Republic.....	75	19	6	..
Ecuador.....	47	47	6	..
French Possessions.....	Not Rated	Not Rated	Not Rated	Not Rated
Guatemala.....	80	18	2	..
Haiti.....	81	19	..	..
Honduras.....	62	38	..	..
Mexico.....	67	30	3	..
Netherlands Possessions.....	81	19	..	..
Nicaragua.....	52	40	8	..
Panama.....	72	25	3	..
Paraguay.....	65	30	5	..
Peru.....	74	26	..	..
Puerto Rico.....	82	18	..	..
El Salvador.....	68	32	..	..
Uruguay.....	62	38	..	..
Venezuela.....	71	23	6	..

country follows, and we list below "Good" credit markets in the order of their standing in this classification.

GOOD:

Cuba, Argentina, Netherlands Possessions, Puerto Rico, Colombia, Dominican Republic, Guatemala, British Possessions, Brazil, Mexico, Venezuela, Panama, Peru, Chile, Uruguay, Honduras, Costa Rica, El Salvador, Haiti, Paraguay, Ecuador and Nicaragua.

**FAIRLY GOOD:** Bolivia.  
**FAIR:** None. **POOR:** None.

**COLLECTIONS:**

This is the sixth survey in which all markets are listed as "Prompt" and is the tenth consecutive, semi-annual survey in which not a single one of the markets under consideration is rated as "Slow" or "Very Slow" from the point of view of Collections. The current survey of Collections in percentages of replies received follows, in a country-by-country listing. French Possessions are not rated. Markets are listed below in the order of their rating in the "Prompt" Collection classification.

**PROMPT:**

Brazil, Cuba, Haiti, Netherlands Possessions, Peru, Puerto Rico, Argentina, Honduras, El Salvador, Uruguay, Guatemala, Costa Rica, Colombia, Mexico, Panama, Chile, British Possessions, Paraguay, Ecuador, Dominican Republic, Venezuela, Nicaragua, Bolivia.

**FAIRLY PROMPT:** None.

**SLOW:** None.

**VERY SLOW:** None.

**TERMS**

This survey once more demonstrates the fact, brought out in previous reports, that "nine out of ten" U. S. exporters during 1945 continued to give their Latin-American buyers the same accommodations granted them during 1944. A country-by-country listing of the terms survey reported in percentages of replies received is included herewith.

**EXPORT VOLUME**

A report of the volume of members' 1945 export sales as compared with 1944 in a country-by-country survey follows. It is emphasized that an extremely wide range was evident in the reports on this

## Comparison of Credit and Collection Index Figures (Based on Surveys on Credit and Collection Conditions in Latin America)

	Credit Conditions		Collections	
	January 1946	January 1945	January 1946	January 1945
Argentina.....	290	277	100	91
Bolivia.....	232	237	88	76
Brazil.....	283	292	100	100
British Possessions.....	286	289	96	98
Chile.....	276	283	96	97
Colombia.....	287	292	97	100
Costa Rica.....	272	278	97	97
Cuba.....	292	297	100	100
Dominican Republic.....	286	277	94	100
Ecuador.....	264	261	94	90
French Possessions.....	Not Rated	Not Rated	Not Rated	Not Rated
Guatemala.....	286	282	98	100
Haiti.....	269	279	100	100
Honduras.....	273	255	100	95
Mexico.....	280	294	97	100
Netherlands Possessions.....	289	288	100	100
Nicaragua.....	251	257	92	93
Panama.....	278	290	97	100
Paraguay.....	268	264	95	94
Peru.....	278	291	100	100
Puerto Rico.....	289	294	100	100
El Salvador.....	272	270	100	98
Uruguay.....	274	281	100	98
Venezuela.....	279	296	94	99

**CREDIT—GOOD:** 250 and up. Lowest percentage 50% good, 50% fair.

**FAIRLY GOOD:** 225 to 250. Lowest percentage 25% good, 75% fair.

**FAIR:** 200 to 225. Lowest percentage 100% fair.

**POOR:** 175 to 200. Lowest percentage 75% fair, 25% poor.

**VERY POOR:** Below 175.

**COLLECTIONS—PROMPT:** Over 70% prompt or fairly prompt collections.

**FAIRLY PROMPT:** 50% to 70% prompt or fairly prompt collections.

**SLOW:** 40% to 50% prompt or fairly prompt collections.

**VERY SLOW:** Less than 40% prompt or fairly prompt collections.

feature of the survey, and due caution should be exercised in the use and interpretation of these "general-average" percentage figures.

## Foreign Trade Phases Discussed at 2-Day San Francisco Meet

San Francisco: The first annual Institute of World Trade was held in San Francisco January 24th to 26th inclusive. The Institute was sponsored by the San Francisco Bay Area World Trade Promotion Committee in cooperation with the University of California, Berkeley, Stanford University at Palo Alto and the Foreign Credit Chapter of the Credit Managers Association of Northern and Central California.

The purpose of the Institute was to provide an introduction to and a short course on the problems of world trade with address and discussions aimed primarily at answering those questions

of business establishments and individuals who desire to expand their business contacts, or who wish to engage in foreign trade for the first time.

The subjects discussed were: Direct Exporting, Indirect Types of Export Outlets, Creating Export Sales, Export sales Promotion and Advertising, Importing Raw Materials, Importing Consumer Goods, Transportation and Documentation, Financing Overseas Business, Marine Insurance, Controls and Restrictions, Foreign Credit, Collection and Exchange.

## Boston Hears Talk on Latin-American Trade

Boston: Donald J. Moore, Export Representative for New England Manufacturers, was the speaker at the January 22nd meeting of the Boston Credit Men's Association. Mr. Moore, who recently returned from a five-month trip through Latin America, where he visited eighteen countries, told of the excellent opportunities for trade in almost all countries below the Canal Zone.

# N A C M N E W S

**About Credit Leaders**

**Association Activities**

## Robert L. Simpson Is Named President of N.O. Dock Board

New Orleans: Robert L. Simpson, President of the C. T. Patterson Company and National President of the National Association of Credit Men has been named President of the Dock Board, which governs the New Orleans Port. An editorial in the *New Orleans States* commends the public service of the Dock Commission and especially the services of Mr. Simpson as follows:

"The five commissioners manage, gratis, \$50,000,000 worth of public facilities in the handling of commerce second in volume to that of New York. True, they have a paid general manager, and a paid staff of executives and subordinates, but these do not lift from the shoulders of the commissioners the larger burdens and responsibilities.

"These facts are mentioned in connection with the announcement that President C. Alvin Bertel steps out of office, succeeded by Robert L. Simpson. Mr. Bertel has given the Second Port competent and conscientious service. Mr. Simpson will do no less.

"Besides being grateful to these five commissioners for giving their time and energies to the public good, the people of New Orleans ought to be additionally thankful that the members appointed by Governors Sam Jones and James H. Davis have kept the Dock Board depoliticalized."

## Gerald Phelan Is Named To Detroit Airport Job

Detroit: Gerald E. Phelan, son of Mr. and Mrs. L. E. Phelan has been named assistant traffic manager at Detroit for the American Airlines. He will be in charge of all traffic activities for the American Airlines at the Detroit City Airport. Many friends of the popular Secretary of the Detroit Credit Men's Association will be pleased to know of this advancement made to his son.

## Warner Renamed to Lead New Orleans CMA

New Orleans: J. Henry Warner, Judkins Co., Inc., was reelected President of the New Orleans Credit Men's Association at the January meeting of that organization.

## Herman H. Faulstich, Chicago's President, Dies on January 13



Herman H. Faulstich, the First National Bank of Chicago, President of the Chicago Association of Credit Men, passed away at his residence in Chicago Sunday, January 13. Mr. Faulstich was widely known not only in local industrial and banking circles but he was also known to hundreds of business men throughout the United States, having joined the staff of the First National Bank more than 40 years ago and having served in the bank's credit department since 1917. He was twice honored with the presidency of the Chicago chapter of Robert Morris Associates.

Mr. Faulstich was very active in the Chicago Association of Credit Men since World War I, serving on many committees, of the local Association and also of the National Association of Credit Men. He was treasurer of the Chicago Association for five years and was elected president May 1, 1945.

His Masonic connections were many, having received his 32nd Degree in Masonry April 23, 1908. He was a member of Oriental Consistory and also belonged to Medinah Temple of the Mystic Shrine. His Blue Lodge membership was Wayfarers Lodge, 1001, Evanston, Illinois. He was also Past Worthy Patron of Paragon Chapter of the Eastern Star of which his widow, Lois, is now secretary.

In the 50 year history of the Chicago Association of Credit Men Mr. Faulstich was the first president to die while holding that office.

## New Credit Association Is Formed at Erie, Pa.; Expect Fifty Members

The Credit Managers Association of Erie has been officially launched with J. M. Buckelew, Talon, Inc., Meadville, Penn. as the first President; Henry Crossley, The Crossley Co., Erie Pa., as Vice-President; H. B. Rushmore, The Union Bank, Erie as Treasurer; and Philip Kuntz, Erie Window Glass Co. as Secretary. It is expected that before the end of the current Association year this new organization will reach a membership of between fifty and sixty.

This organization is a development by both Buffalo and Pittsburgh of those interested in the Credit profession in the Erie neighborhood. It was found, however, that neither of the older Associations could completely serve their members so after a visit from E. B. Moran and a canvass of the credit executives in the Erie locality, it was decided to officially organize a local Association.

## Six Lectures About Foreign Trade Are Given for Chicagoans

For the benefit of executives who must now deal with old and new customers in all parts of the world and also for the benefit of hundreds of business firms planning to enter foreign markets for the first time, the Chicago Association of Credit Men is conducting a series of six lectures under the direction of the Foreign Trade Division. The speakers are experts in the foreign field. L. T. Hadley, Goodman Manufacturing Company, is chairman of the Foreign Trade Division.

The course opened Tuesday evening, January 29, and closes February 26, the class meeting on successive Tuesday evenings in the Embassy Room of the Morrison Hotel. The speakers and their subjects are:

"Export Orders, Invoicing and Documentation," John W. Schwenger, Acme Steel Company. "Export Insurance and Packing," E. G. Dicus, Marsh & McLennan. "Export Government Aids," E. L. Davidson, Bureau of Foreign and Domestic Commerce. "Export Freight Forwarder—his Functions," H. C. Lussier, J. E. Bernard & Company. "Export Credits and Collections," C. A. Price, International Cellucotton Products Co.

## Harriet B. O'Brien Is Feted by Minneapolis Credit Women's Group



Minneapolis: Miss Harriet B. O'Brien who retired January 1st as Credit Manager of Cream of Wheat Corp. was honored by the Minneapolis Credit Women's Group at their January dinner meeting.

Miss O'Brien, who is one of the founders and a past president of the Minneapolis group, has the exceptional record of perfect attendance since the club's organization in 1936. She served as chairman of the membership committee for four years during which time the club grew to be third largest in the United States. In addition, Miss O'Brien has been active in both local and national Association work serving on the National Credit Women's Executive Committee and on the National Membership Committee.

A resolution was unanimously adopted expressing appreciation of Miss O'Brien's splendid service and her unfailing enthusiasm and friendliness which have meant so much to the Minneapolis Credit Women's Group. She was elected as the club's first honorary member and was presented with a set of luggage for her forthcoming trip, as Miss O'Brien plans to spend the rest of the winter in California.

Other guests of honor at the January meeting were officers and directors of the Minneapolis Association and its Executive Secretary, Mr. Brace Bennett, who introduced them to the gathering. A "Shop Night" program followed with talks by Mr. E. C. Vorlander, Minneapolis-Honeywell Regulator Co., on "Tomorrow's Credit Opportunities" and Mr. C. J. Wagner, Association Counsel, on "Legal Aspects of Postwar Credits."

\* \* \* \* \*

Another honor was conferred on Miss O'Brien at the January meeting of the Minneapolis Association of Credit Men when a resolution was unanimously adopted electing her as the fourth life member of the Association.

St. Louis: The Credit Women's Club of St. Louis held their annual Christmas Party on December 19. Guests were invited and a number of the members brought their mothers. The tables were attractively decorated with holly and red candles. There were many fine prizes for the winners of the various contests, and as attendance prizes.

Miss Clara B. Cramm, Treasurer, Wallace Pencil Company, passed away on Thursday, December 20. Miss Cramm had been a member of the St. Louis Association of Credit Men since January, 1918, and was one of the organizers of the first Credit Women's Club twenty years ago.

New Jersey: The New Jersey Credit Women's Group heard a talk on January 15th by Professor Solomon Flink, Professor of Economics, on "Present Day Economy." A number of the members of the New Jersey Credit Executives attended this meeting.

Milwaukee: The members of the Wholesale Credit Women's Club of Milwaukee heard an interesting talk at their January 15th dinner meeting by Robert Rumpel, Manager, Merchandising Division, Better Business Bureau of Milwaukee. Mr. Rumpel explained what his bureau attempted to do for the protection of the consumer and the merchandiser. At the December meeting of the Credit Women's Group a scholarship was awarded for the class on "Problems of Credit Management" at the University of Wisconsin Extension.

Dayton: At a meeting held at the Van Cleve Hotel, Wednesday noon, January 30, the Dayton Credit Women's Club was organized.

Ten women were present, who formed the charter membership.

Miss Helen Lyddan of Dun and Bradstreet, Inc., was chosen President. Miss Ruth B. Miller of The Monarch Marking System Company was named Vice-President and Mrs. Bernice M. Harnish of the Dayton Association of Credit Men was named Secretary-Treasurer.

Our first regular meeting will be held at the Green Room of the Van Cleve Hotel, Tuesday, February 19, at 5:30, at which time Mrs. Lucy Killmer will be our guest.

## Harvard Economist Proves Drawing Card For Cleveland ACM

Cleveland: The Cleveland Association turned out a capacity audience to hear Professor Sumner Slichter of Harvard University on January 25th. It was voted one of the most interesting and worthwhile meetings ever held.

The Chairman of the Educational Committee, Mr. Griesinger, made an announcement of several of the Educational Forums to be held in the Spring. These meetings will be held every two weeks from 7:00 to 9:00 in the evening with two speakers on pertinent subjects of finance and economics.

## Mary Jane Heady Dies After Long Illness; With NACM Since '22

New York: Just as the February issue was going to press, word came of the death of Mrs. John L. Redmond. Mrs. Redmond had been ill for several weeks. She was the widow of a former National President, who was elected at the Toronto Convention in 1941. Mr. Redmond died in 1944.

Chicago: Mary Jane Heady Moran died on January 30 after a long illness. She had been a part of the NACM Organization since 1922 when she became associated with the Credit Interchange Department. Shortly thereafter she was assigned to the Chicago office of the Association and was an active figure in the Central Division office for a number of years.

In announcing her death Executive Manager Henry H. Heimann said in a bulletin to National Officers and Directors: "Mary Jane was really as much a part of this organization as you or I. No human being ever gave us more faithful service. No person ever had her heart more wrapped in this work than Mary Jane. Even while she was under the shadow of death, she thought of ideas for our good. We will all miss her, but the contribution she made to the National Association of Credit Men will never die."

## Miss Bess Havens Has Resigned as Secretary Of Triple Cities Assn.

Binghamton: The Board of Directors of the Triple Cities Association of Credit Men has accepted the resignation of Miss Bess Havens as secretary of this organization. She had served for the past two years as part-time secretary although her job as credit manager for the First National Bank of Binghamton occupied most of her time. Because of enlargement of the bank's activities it was found necessary for Miss Havens to devote all of her time in the bank.

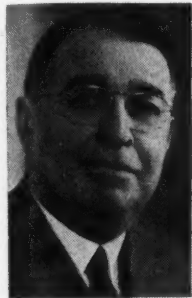
## Prof. Wm. J. Shultz Speaks at Bridgeport

Bridgeport: The regular monthly meeting of the Bridgeport Association was held on Wednesday, January 9, the speaker being Prof. William J. Shultz of the City College of New York and Management Consultant with the Industrial Commodity Company of New York. Prof. Shultz gave a talk on the subject of "Credit Limits," further elaborating on his article on the same subject which appeared in "Credit and Financial Management" in April, 1945.

## C. W. Dittmar Named New President of Chicago Association

Mr. Dittmar has announced that the committees appointed by the former president, Mr. Faulstich, will continue the various activities of the Chicago Association as planned by Mr. Faulstich and the Board of Directors.

By action of the Board of Directors of the Chicago Association of Credit Men at a special meeting held Friday, January



18, C. W. Dittmar, assistant treasurer of Crane Co., was elected President of the Association to succeed the late Herman H. Faulstich, the First National Bank of Chicago. At the same time R. L. Seaman, treasurer and general credit manager of the

Florsheim Shoe Company, was made first vice president of the Association to succeed Mr. Dittmar.

Mr. Dittmar was elected first vice president of the Association at the annual meeting last May and will fill out the unexpired term of Mr. Faulstich. He has been with Crane Co. more than 30 years, coming to Chicago in 1917. In 1934 he was made supervisor of credits and a year later was appointed assistant treasurer. Prior to his election as first vice president of the Chicago Association of Credit Men, he served 3 years on the Board of Directors.

Mr. Seaman became associated with the Florsheim Shoe Company in 1923 and was made general credit manager in 1934, being then elected treasurer in May 1941. He served on the Board of Directors of the Chicago Association of Credit Men and as chairman of the Membership Committee.

## Louisville C.M.A. Has Truckers' Blue Book

Louisville: The Louisville Credit Men's Association has just issued a BLUE BOOK of Motor Trucking Lines. The information contained in this book is for the use of the traffic managers of the Louisville Association. The book lists the qualifications of the various trucking companies as to financial strength, adequate insurance, dependability, and prompt payment of C. O. D. shipments.

While the BLUE BOOK covers the trucking lines operating in the Louisville areas, any Association officer who desires to have a copy of the BLUE BOOK for reference or guidance may have one by writing to Sam J. Schneider, Secretary-Manager of the Louisville Association.

Beg Pardon Columbus: In the list of Associations printed in the December issue of *Credit and Financial Management*, the name of the Columbus Credit Association unfortunately was omitted. Harry S. Hahn is President of the Columbus Association, and A. M. Sutherland is Secretary. We suggest that this information be added to the list of Associations by those who have occasion to contact outside Associations.

## Arthur Fuchs Elected President of New York Paint & Allied Group

Arthur Fuchs, credit manager of Nation Lead Company at New York, was elected president of the Paint & Allied Industries Credit Association, at the annual meeting held Wednesday evening, January 16th, at the Building Trades Employers Association, 2 Park Avenue, New York City.

Mr. Fuchs has been identified with the paint and varnish industry for many years and has been an active credit representative at the Paint & Allied, serving as director for several years, and 2nd vice-president in 1945.

Other Paint & Allied officers and directors elected for 1946 were:

1st vice president, Theodore H. Kleine, of Hilo Varnish Corp.  
2nd vice-president, Graham H. Rothweiler, of Murphy Finishes Corp.  
Treasurer, William Rohs, of Colonial Works, Inc.

Retiring President, Willard T. Stewart, automatically also becomes a member of the Board of Directors for 1946.

## Construction Machinery Group at Chicago Meet

The National Construction Machinery Credit Group held its mid-winter conference in Chicago, Wednesday and Thursday, February 20 and 21. The sessions were held in the LaSalle Hotel. R. E. O'Connell, the Huber Manufacturing Company, Marion, Ohio, presided as chairman. The members elected a new executive committee and this committee will elect a new chairman for the coming year. James S. Cox, secretary-manager of the Chicago Association of Credit Men, is the secretary.

## Mid-West Food Group, Feb. 22

The seventh annual mid-west Food Manufacturers and Manufacturing Confectioners Credit Group conference will be held in the LaSalle Hotel in Chicago, Friday, February 22. Co-chairmen of the conference are W. E. Schumacher, Anheuser-Busch, Inc., and Wm. F. Pretzel, Bunte Bros.

## Cincinnati Will Mark Golden Anniversary On November 12, 1946

Cincinnati: At the January meeting of the Board of Directors of the Cincinnati Association of Credit Men, it was decided to celebrate the Golden Anniversary of the Credit organization in this city on November 12.

In June of 1896 seven members from Cincinnati travelled to Toledo to attend the first National Convention. On their return from that initial meeting of NACM, these men decided to organize the Cincinnati Association of Credit Men and formal adoption of the Constitution and By-Laws occurred on November 12, 1896. Hence the selection of November 12 of this year as a celebrating day for the Golden Anniversary.

Edward J. Rieckelman of Rieckelman & Co., 34 West 6th Street, Cincinnati, was one of the seven men who attended the first NACM Convention in Toledo. He has been a continuous member of the Cincinnati Association since its organization.

## New York Celebrates 51st Anniversary at Banquet on Feb. 28th

New York: The 51st Annual banquet of the New York Credit Men's Association will be held on February 28th at the Hotel Commodore. The banquet was originally scheduled for an earlier date in February, but it was found necessary to postpone the annual Association gathering because of difficulties in obtaining a speaker as well as making arrangements for hotel accommodations.

## "Plus-One" Club Is Philadelphia Plan For Memberships

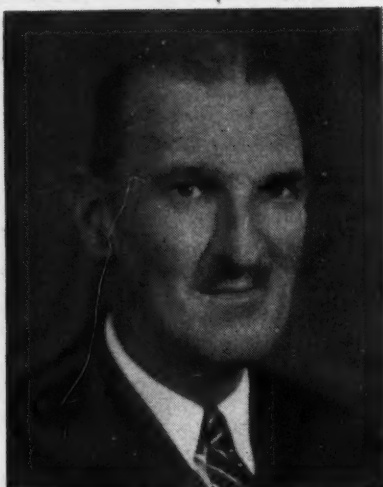
Philadelphia: J. V. Williams of the Concrete Products Company of America, president of the Plus One Club, has announced an award to be known as the "Plus One Club Award of Merit" to be given at the Annual Meeting in April to the member of the Association selected for outstanding accomplishments in the interest of the Credit Men's Association of Eastern Pennsylvania.

Through the annual presentation of this award, it is expected that membership interest in the Association's work and activities will be fostered and stimulated, resulting in added benefits to all members of the Association.

The Plus One Club is composed of members of the Credit Men's Association of Eastern Pennsylvania who have secured a new member. The securing of a new member provides eligibility for a period of two years.



**NEW YORK**  
Earl N. Filio  
Assistant Treasurer  
COLGATE-PALMOLIVE PEET CO.



**INDIANAPOLIS**  
J. G. Martin  
Credit Manager  
E. C. ATKINS & CO.



**SAN FRANCISCO**  
H. T. Kelley  
Controller  
THE ENVELOPE CORP.



**LEXINGTON**  
I. B. Jones  
Sec.-Treasurer  
SAVAGE LUMBER CO.

# Association

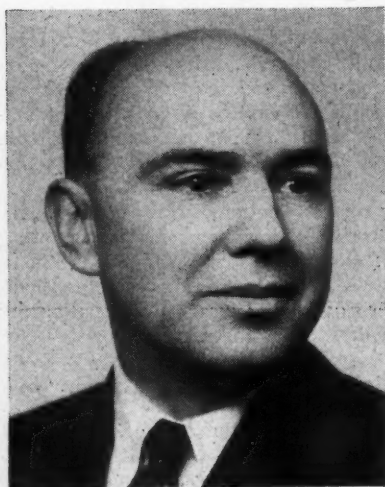
Herewith is another group of 14 pictures of local Association presidents. As announced in the January issue, we hope to present pictures of other Association presidents in subsequent issues.

A past National officer said in commenting on the group of local presidents presented in the January issue: "There is the main spring of our National Association—for these men and their predecessors and others like them who have captained the local activities and have made possible the work of the National Association in every market of the country."

It is one of the traditions of N.A.C.M. that "the



**AMARILLO**  
Ernest H. Coonrod  
Credit Manager  
WEST TEXAS WHOLESALE DRUG



**SPOKANE**  
C. C. Pence  
Sec.-Treasurer  
SILVER LOAF BAKING CO.



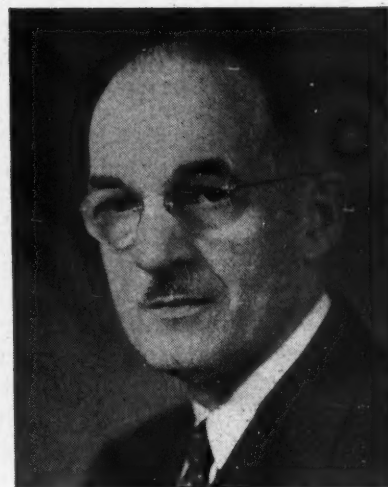
**UTICA**  
Wesley C. King  
Credit Manager  
UTICA MUTUAL INS. CO.



**CINCINNATI**  
Paul F. Smalley  
Assistant Treasurer  
THE ANDREWS STEEL CO.



**TACOMA**  
Paul F. Benton  
Auditor  
STATION KMO



**OMAHA**  
R. J. Ulman  
Gen. Credit Manager  
TOOTLE DRY GOODS CO.

# Presidents

office shall seek the man." Still another tradition of our organization is that a member benefits only by way of a dividend on what he gives to his Association. It may be assumed that these presidents of local Associations have given unstintingly to the work of building their organizations.

To be president of Credit Men's Association is a well earned honor. The words of the old proverb—"it is a worthier thing to deserve honor than to possess it" might well be the refrain of these presidents who find their titles bring added tasks almost without number.

So let us doff our hats to our Association president.



**BINGHAMTON**  
John B. Denton  
Credit Manager  
ANSCO PRODUCTS



**CLARKSBURG**  
E. W. James  
President  
THE JAMES & LAW CO.



**ST. JOSEPH**  
H. Marshall Jones  
Chief Clerk  
ST. JOSEPH LIGHT & POWER CO.



**CHARLESTON**  
R. S. Richardson  
Sec.-Treasurer  
CHARLESTON HARDWARE CO.

## How Taxes Affect Partnership Credit

(Continued from page 9)

accounts to further complicate an already complicated task of keeping records.

It is my intention to bring this point to the attention of Mr. M. C. Conick of our firm, who is a member of the Committee on Accounting Procedure of the American Institute of Accountants, and I suggest that your organization also contact the committee and present its views. This question will be given thorough consideration by the committee, which may then issue, if it so desires, one of the bulletins previously mentioned to become part of the accountant's Bible.

In the meantime I suggest that you credit men request financial statements in comparative form from partnerships and sole proprietorships, which should include:

1. A statement of profit and loss in reasonable detail as to sales, cost of sales, and expenses; net profit or loss from operations; and non-operating or non-recurring income or expense.

2. A balance sheet which should show, as a current liability, as a footnote, or as supplementary data, the liability of the enterprise for substantial commitments and for anticipated extraordinary withdrawals for taxes or for other purposes.

The statements should also disclose the amount of withdrawals. If the withdrawals are excessive, an explanation should be given.

## Factors in Handling Marginal Credit Risks

(Continued from page 13)

inter-related fields which have significance in both the national and world economies. A broad background is prerequisite to effective and meaningful service in the contemporary business world, for it is no longer adequate to be a balance sheet expert, alone, nor adhere to old yardsticks in measuring problems that call for the lifting of one's sights to new horizons. It is significant for industrial civilization

that the old horizons have already begun to be pushed back by new scientific discoveries. Developments in the fields of physics and chemistry during these war years have opened up a vast field of pioneering effort culminating in the dawn of the Atomic Age. Obviously, it is beyond any mortal's power to encompass all the knowledge requisite to an overall comprehension of what this age portends. But we, as credit men, can lift our sights and become 'alerted' to the needs precipitated by the new techniques and new approaches to the problem of judging the sound business risk and the recognition of him "who rushes in where angels fear to tread."

## Chattel Mortgage Sales Contracts

(Continued from page 35)

be drawn to include replacements. Have local counsel draw any such mortgage.

The statute requires a certain quality and size of paper or an additional filing fee is charged. See Sec. 59.51 (11).

For whole statute see Wisconsin Statutes 241.01 to .17.

**WYOMING:** To be valid against third persons a chattel mortgage must be acknowledged and filed or recorded in the office of the county clerk where the property is. For form of mortgage and acknowledgement see 71-111, Wyoming Revised Statutes, 1931.

The recording is good till the debt is paid.

A mortgage on stock in trade is valid but unless permission is expressly given the mortgagor to use the proceeds of sales as his own he must pay them over to the mortgagee to reduce the debt.

The mortgagee must cancel of record within 60 days after the debt is paid.

The mortgagee may foreclose under a power of sale (provided the mortgage has been recorded) and proceed to sale with proper notice. The mortgagee may purchase at the sale. The mortgagor may be held liable in an action at law for any deficiency. The mortgagor's right of redemption shall be extinguished by the sale.

Wyoming Revised Statutes 1931, 71-101-130.

\* \* \*

It must be stated in conclusion that none of the statutes dealing with the recording of mortgages on motor vehicles has been treated in this article. In many of the states, special treatment is given the recording of these instruments.

## New York Chapter N.I.C. Begins Spring Courses In Advanced Credits

New York: The New York Chapter, National Institute of Credits, heard a talk at its January dinner meeting by David E. Golieb of International Handkerchief Manufacturing Co., who is chairman of the board of the New York Chapter. Charles A. O'Donnell of Celanese Plastics Corp. presided at the meeting.

The New York chapter began its spring term with classes in public speaking and also an advanced credit problem refresher course. The class in public speaking will have fifteen sessions running from January through April, and it will be under the direction of Professor Wilbur K. McKee.

The class in advanced credit problems will be under the direction of Professor A. F. Chapin of New York University. Other outstanding authorities in the credit field will also conduct some of the sessions which will be devoted to the analysis of actual credit cases and practical credit problems.

## Advanced Credit Class Starts at Wayne "U"

Detroit: A new semester in the Credit Education class started on February 6th in the main University Bldg., Wayne University. This class designated as "Problems in Credit Management, or Advance Credits and Collections" carries a two-hours credit from the University and also for the N.I.C. award.

## Positions Wanted

Credit Manager of a large mid-western wholesale paper house desires transfer to Southern California. On more than seven million dollars per year sales—average loss over past ten years was .0003%. Native born, married, middle-aged. Experience includes Personnel, Office Management and Credit work. Address box F-2, CREDIT AND FINANCIAL MANAGEMENT.

Credit Manager with outstanding record and reputation in constructive credit management, public relations, personnel and sales promotion. Box F-3, CREDIT AND FINANCIAL MANAGEMENT.

Executive type, with 12 years' experience as Credit Manager and Accounting Supervisor. Age 36—three years college. Present position of supervisor of large manufacturing organization office is unfavorable. Would like to make a change. Capable of handling personnel. Box F-4, CREDIT AND FINANCIAL MANAGEMENT.

Assistant to Treasurer or President—Successfully handled general credit, dealer and retail financing, purchasing, stock control and legal problems for national manufacturer. Managed their finance company and credit department. Increased credit sales and cut delinquencies with sales methods. Revised retail sales contracts to conform with states' changing laws and court decisions. During war managed Purchase Department. Applied collection follow-up methods to expedite delivery on purchase orders. As Navy Officer devised and operated a lumber inventory control plan for Navy. Navy is retaining plan for peacetime operation. Education—Business and Law—LLB Degree—Graduate Work, Industrial Management. Age 36; married. Address CREDIT AND FINANCIAL MANAGEMENT, Box F-1.